

WORKING DRAFT

AASB Standard

AASB 10XX
XX XXXX

General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities

DRAFT



Australian Government

**Australian Accounting
Standards Board**

Obtaining a copy of this Accounting Standard

This Standard is available on the AASB Digital Standards Portal (standards.aasb.gov.au), which can also be accessed from aasb.gov.au.

Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Phone: (03) 9617 7600
E-mail: standard@aasb.gov.au
Website: www.aasb.gov.au

Other enquiries

Phone: (03) 9617 7600
E-mail: standard@aasb.gov.au

COPYRIGHT

© Commonwealth of Australia [year]

This work contains copyright material of the International Non-Profit Accounting Standard (INPAS), the Chartered Institute of Public Finance & Accountancy (CIPFA), the IFRS[®] Foundation, the International Federation of Accountants (IFAC) and the External Reporting Board (New Zealand), in respect of which all rights are reserved. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the copyright owners. Requests and enquiries concerning reproduction and rights should be addressed to The Managing Director, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.

This work is issued by the Australian Accounting Standards Board and has not been prepared or endorsed by CIPFA, the IFRS[®] Foundation, IFAC or the NZ External Reporting Board.

ISSN 1036-4803

Contents

PREFACE

ACCOUNTING STANDARD

AASB 10XX GENERAL PURPOSE FINANCIAL STATEMENTS – NOT-FOR-PROFIT PRIVATE SECTOR TIER 3 ENTITIES

<i>Section</i>	<i>from paragraph</i>
1 OBJECTIVE, SCOPE AND APPLICATION	1.1
2 FINANCIAL STATEMENT PRESENTATION	2.1
3 STATEMENT OF FINANCIAL POSITION	3.1
4 STATEMENT(S) OF FINANCIAL PERFORMANCE	4.1
5 STATEMENT OF CHANGES IN EQUITY AND STATEMENT OF INCOME AND RETAINED EARNINGS	5.1
6 STATEMENT OF CASH FLOWS	6.1
7 NOTES TO THE FINANCIAL STATEMENTS	7.1
8 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS	8.1
9 ACCOUNTING POLICIES, ESTIMATES AND ERRORS	9.1
10 FINANCIAL INSTRUMENTS	10.1
11 FAIR VALUE MEASUREMENT	11.1
12 INVENTORIES	12.1
13 INVESTMENTS IN ASSOCIATES AND INTERESTS IN JOINT ARRANGEMENTS	13.1
14 INVESTMENT PROPERTY	14.1
15 PROPERTY, PLANT AND EQUIPMENT	15.1
16 INTANGIBLE ASSETS	16.1
17 ENTITY COMBINATIONS	17.1
18 LEASES	18.1
19 PROVISIONS AND CONTINGENCIES	19.1
20 REVENUE	20.1
21 EXPENSES	21.1
22 IMPAIRMENT OF ASSETS	22.1
23 EMPLOYEE BENEFITS	23.1
24 INCOME TAXES	24.1
25 FOREIGN CURRENCY TRANSLATION	25.1
26 EVENTS OCCURRING AFTER THE REPORTING PERIOD	26.1
27 RELATED PARTY DISCLOSURES	27.1
28 TRANSITION TO TIER 3 GENERAL PURPOSE FINANCIAL STATEMENTS	28.1

APPENDICES

- A Glossary of terms**
- B Effective date**
- C Amendments to other Australian Accounting Standards**

ILLUSTRATIVE EXAMPLES

BASIS FOR CONCLUSIONS

[Draft] Australian Accounting Standard AASB 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* is set out in paragraphs 1.1–28.18 and Appendices A–C. All the paragraphs have equal authority. Other Australian Accounting Standards may also be relevant, as set out in paragraph 1.5. In the absence of explicit guidance, Section 9: *Accounting Policies, Estimates and Errors* in this Standard provides a basis for selecting and applying accounting policies.

Preface

Introduction

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards, including Interpretations. The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*.

AASB 1057 *Application of Australian Accounting Standards* identifies the application of Standards to entities and financial statements. AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of three tiers of reporting requirements for preparing general purpose financial statements.

Main features of this Standard

Background

This Standard is issued in response to the review of the financial reporting framework for not-for-profit private sector entities. By introducing a new reporting tier of general purpose financial statements, AASB 10XX aims to provide a proportionate financial reporting response for smaller not-for-profit private sector entities required to prepare financial statements that comply with Australian Accounting Standards.

This Standard responds to stakeholder feedback that the original Australian reporting entity concept is not working as intended, but that:

- (a) the existing Tier 1 and Tier 2 reporting requirements for preparing general purpose financial statements may be overly complex for application by smaller not-for-profit private sector entities; and
- (b) financial reporting requirements should continue to complement other government initiatives aimed at reducing red tape and lessening the reporting burden for entities.

Main requirements

This Standard sets out new, separate recognition (recording), measurement, presentation and disclosure requirements for a new tier of reporting requirements (Tier 3), which is applicable to certain not-for-profit private sector entities. This Standard has been developed through applying a new approach and principles based on considering preparer costs and the information needs of users of general purpose financial statements to determine the modified recognition, measurement, presentation and disclosure requirements that are appropriate for Tier 3 entities. Tier 3 entities are not-for-profit private sector entities that are not publicly accountable and are not prohibited from applying this Standard by legislation or their constituting document or another document. The approach and principles applied are outlined in the Basis for Conclusions accompanying this Standard.

This Standard does not specify which entities are permitted to apply Tier 3 reporting requirements. That is a matter for regulatory authorities to determine. This Standard sets out only the recognition, measurement, presentation and disclosure requirements that are relevant to general purpose financial statements of Tier 3 entities as determined by those authorities.

Application date

This Standard applies to annual reporting periods beginning on or after ... [1 July 2029] (see paragraph B1). Earlier application is permitted.

Accounting Standard AASB 10XX

The Australian Accounting Standards Board makes Accounting Standard AASB 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Keith Kendall
Chair – AASB

Accounting Standard AASB 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*

Section 1: Objective, Scope and Application

Notes to Board members

Based on the discussion at the 20-21 November 2025 Board meeting, the scope paragraphs have been amended to clarify that this Standard does not specify which entities must prepare general purpose financial statements. In addition, Board members asked staff to incorporate some guidance to respond to the concern raised at the AASB Research Forum that what are NFP private sector entities is not clear. In this regard, as the Australian Accounting Standards do not currently include a definition of ‘public sector’ or ‘private sector’ entities, staff were led by precedent and included a paragraph (proposed paragraph 1.4) providing examples of the entities that would not be able to apply the Tier 3 Standard.

Objective

- 1.1 The objective of this Standard is to specify proportionate, simplified financial reporting requirements for general purpose financial statements prepared by Tier 3 entities, to require the reporting of useful, consistent and transparent information by those entities in a manner that achieves an appropriate balance of costs and benefits.

Scope of this Standard

- 1.2 This Standard sets out the accounting for not-for-profit private sector entities that elect or are required to prepare general purpose financial statements that comply with Tier 3: Australian Accounting Standards – Simplified Accounting reporting requirements. This Standard does not apply to public sector entities.
- 1.3 AASB 1053 *Application of Tiers of Australian Accounting Standards* sets out the application of Tiers of Australian Accounting Standards for entities preparing general purpose financial statements. AASB 1053 requires not-for-profit private sector entities that do not have public accountability and that are not prohibited from applying Tier 3 reporting requirements by legislation or their constituting document or another document to, as a minimum, apply Tier 3: Australian Accounting Standards – Simplified Accounting reporting requirements in preparing their general purpose financial statements. Such entities include some charitable organisations, co-operatives and incorporated associations. Entities eligible to apply Tier 3 reporting requirements may instead elect to apply Tier 1 or Tier 2 reporting requirements in their entirety in preparing general purpose financial statements.
- 1.4 Examples of the types of entities to which this Standard does not apply are:
- (a) companies listed on a stock exchange;
 - (b) governments, as defined in AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;
 - (c) local governments; and
 - (d) entities, including departments, controlled by those governments or local governments.

Application of this Standard

- 1.5 A not-for-profit private sector entity that applies the Tier 3 reporting requirements under AASB 1053 shall apply this Standard. In addition, the entity shall apply the recording, measurement, presentation and transition requirements of the following Australian Accounting Standards, and any related disclosure requirements (other than transition) in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*:
- (a) AASB 2 *Share-based Payment*, in relation to share-based payment arrangements;
 - (b) AASB 17 *Insurance Contracts*, in relation to insurance contracts issued by the entity;
 - (c) AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, in relation to non-current assets held for sale except for:
 - (i) financial assets within the scope of Section 10 of this Standard; and
 - (ii) investment properties measured using the fair value model in Section 14 of this Standard;
 - (d) AASB 6 *Exploration for and Evaluation of Mineral Resources*, in relation to exploration for, and evaluation of, mineral resources;
 - (e) AASB 9 *Financial Instruments* and other applicable Australian Accounting Standards, in relation to the financial instruments listed in paragraph 10.4 of this Standard;
 - (f) AASB 119 *Employee Benefits*, in relation to obligations arising under a defined benefit plan; and
 - (g) AASB 141 *Agriculture*, in relation to biological assets except for bearer plants, and agricultural produce at the point of harvest.

Commencement of the legislative instrument

- 1.6 For legal purposes, this legislative instrument commences on ... [30 June 2029].

Section 2: Financial Statement Presentation

Notes to Board members

Based on the discussion at the 20-21 November 2025 Board meeting, staff have updated the titles of the financial statements in the Tier 3 Standard with those in AASB 18 *Presentation and Disclosure in Financial Statements*.

Scope of this section

- 2.1 This section explains fair presentation of financial statements, what compliance with this Standard requires and what a complete set of financial statements is.

Fair presentation

- 2.2 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition (recording) criteria for assets, liabilities, income and expenses set out in the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*) (*Conceptual Framework*). The application of the recording, measurement, presentation and disclosure requirements in this Standard, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows of Tier 3 entities. The additional disclosures referred to above are necessary when compliance with the specific requirements in this Standard is insufficient to enable users of the financial statements to understand the effects of particular transactions, other events and conditions on the entity's financial position, financial performance and cash flows.

Compliance with this Standard

- 2.3 An entity whose financial statements comply with the recording, measurement, presentation and disclosure requirements in this Standard shall make an explicit and unreserved statement of such compliance in the notes.

Financial statements shall not be described as complying with this Standard unless they comply with all these requirements.

- 2.4 An entity shall disclose in the notes:
- (a) the statutory basis or other reporting framework, if any, under which the financial statements are prepared; and
 - (b) that it is a not-for-profit entity.
- 2.5 Even if an entity's management considers that compliance with a requirement in this Standard would be misleading, entities applying this Standard shall not depart from any of its requirements. In the extremely rare circumstances in which management concludes that compliance with a requirement in this Standard would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:
- (a) the nature of the requirement in this Standard and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Conceptual Framework*; and
 - (b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

Going concern

- 2.6 When preparing financial statements, an entity's management shall assess the entity's ability and willingness to continue as a going concern. An entity is a going concern unless management either intends to liquidate the entity or to cease its operations, or has no realistic alternative to doing so. In assessing whether the going concern assumption is appropriate, management takes into account all information available about the future, looking forward at least twelve months from the end of the reporting period.

Disclosures of material uncertainties affecting the going concern assumption

- 2.7 When management is aware of material uncertainties about future events or conditions that might cast significant doubt upon the entity's ability or willingness to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall also disclose:
- (a) that fact, together with the reason(s) why it is not regarded as a going concern; and
 - (b) the basis on which the financial statements were prepared.
- 2.8 The effect of a change in an entity's ability to continue as a going concern on the amounts of the entity's assets and liabilities at the end of the reporting period will depend upon the entity's particular circumstances. For example, that effect will depend upon whether operations are to be transferred to another entity, sold in an orderly manner or liquidated in a rushed sale. Judgement is required in determining whether a change in the carrying amounts of assets and liabilities is required. It is also necessary to consider whether the change in circumstances leads to additional liabilities or triggers clauses in debt contracts that will lead to the reclassification of those debts as current liabilities.

Frequency of reporting

- 2.9 An entity shall present a complete set of financial statements (including comparative information – see paragraph 2.12) at least annually. When the end of an entity's reporting period changes and the annual financial statements are presented for a period longer or shorter than one year, the entity shall disclose the following:
- (a) that fact;
 - (b) the reason for using a longer or shorter period; and
 - (c) the fact that comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.

Consistency of presentation

- 2.10 An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

- (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in Section 9; or
 - (b) this Standard requires a change in presentation or classification.
- 2.11 When the presentation or classification of items in the financial statements is changed, an entity shall reclassify comparative amounts unless the reclassification is impracticable.

Comparative information

- 2.12 Except when this Standard permits or requires otherwise, an entity shall disclose comparative information for the previous comparable period for all amounts presented in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

Materiality and aggregation

- 2.13 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.
- 2.14 When applying this Standard an entity shall decide, having regard to its circumstances, how it aggregates information in the financial statements, which include the notes. An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.
- 2.15 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.
- 2.16 This Standard specifies information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure if the information resulting from that disclosure is not material. This is the case even if this Standard contains a list of specific requirements or describes them as minimum requirements.

Offsetting

- 2.17 Users of financial statements should be given as much relevant information as possible about an entity's transactions and balances. Therefore, unless required or permitted to do so by this Standard, an entity shall not offset (net off) assets and liabilities or income and expenses.
- 2.18 The following practices do not involve offsetting:
- (a) measuring assets net of valuation adjustments such as obsolescence or impairment write-downs of items of inventory or property, plant and equipment;
 - (b) netting amounts due from and payable to the same counterparty if the entity is legally entitled to settle the amounts on a net basis;
 - (c) presenting a gain or loss on the sale of an item of property, plant and equipment or investment by deducting from the asset's sale consideration the asset's carrying amount and related selling expenses; and
 - (d) presenting on a net basis gains and losses arising from transactions or other events of a similar nature (eg foreign exchange gains and losses).

Complete set of financial statements

- 2.19 A complete set of financial statements includes:
- (a) a statement of financial position as at the reporting date;
 - (b) a statement (or statements) of financial performance for the reporting period, presented as either:
 - (i) a single statement with profit or loss and other comprehensive income presented in two sections. If this option is chosen, the profit or loss section is presented first, followed directly by the other comprehensive income section; or

- (ii) a statement of profit or loss and a separate statement of comprehensive income. If this option is chosen, the statement of comprehensive income begins with profit or loss, followed by the items of other comprehensive income;
 - (c) a statement of changes in equity for the reporting period;
 - (d) a statement of cash flows for the reporting period; and
 - (e) notes, comprising material accounting policy information and other explanatory information.
- 2.20 If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, corrections of prior period errors and changes in accounting policy, the entity may present a single statement of income and retained earnings in place of the statement(s) of financial performance and statement of changes in equity (see paragraph 5.4).
- 2.21 If an entity has no items of other comprehensive income in any of the periods for which financial statements are presented, it may present only a statement of profit or loss or it may present a statement(s) of financial performance in which the 'bottom line' is labelled 'profit or loss'.
- 2.22 Because paragraph 2.12 requires comparative amounts in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means that an entity shall present, as a minimum, two of each of the required financial statements and related notes.
- 2.23 In a complete set of financial statements, an entity shall present each financial statement with equal prominence.
- 2.24 An entity may use titles for the financial statements other than those used in this Standard as long as they are not misleading. For example, an entity may use 'statement of surplus or deficit' instead of 'statement of profit or loss'.

Identification of the financial statements

- 2.25 An entity shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an entity shall display the following information prominently and repeat it when necessary for an understanding of the information presented:
- (a) the name of the reporting entity and any change in its name since the end of the preceding reporting period;
 - (b) whether the financial statements cover the individual entity or a group of entities;
 - (c) the reporting date and the period covered by the financial statements;
 - (d) that the amounts in the financial statements are presented in Australian dollars; and
 - (e) the level of rounding, if any, used in presenting amounts in the financial statements.
- 2.26 An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:
- (a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of operations, if different from the registered office); and
 - (b) a description of the entity's primary purpose or mission and the nature of the entity's primary operations or activities.

Section 3: Statement of Financial Position

Scope of this section

- 3.1 This section sets out the information to be presented in a statement of financial position and how to present it. The statement of financial position (sometimes called the balance sheet) presents an entity's assets, liabilities and equity as of a specific date – the reporting date.

Information to be presented in the statement of financial position

- 3.2 The statement of financial position shall include line items that present the following amounts when those amounts are material to an understanding of the entity's financial position:
- (a) cash and cash equivalents;

- (b) trade and other receivables ('debtors');
 - (c) financial assets (excluding amounts shown under (a), (b), (h) and (i));
 - (d) inventories;
 - (e) property, plant and equipment;
 - (f) investment property;
 - (g) intangible assets;
 - (h) investments in associates;
 - (i) investments in joint ventures;
 - (j) trade and other payables ('creditors');
 - (k) financial liabilities (excluding amounts shown under (j) and (m));
 - (l) liabilities and assets for current tax;
 - (m) provisions;
 - (n) non-controlling interests, presented within equity separately from the equity attributable to the owners of the parent; and
 - (o) equity attributable to the owners of the parent.
- 3.3 An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position. An entity that presents investments in notable relationship entities shall include this as a line item instead of the line items noted in paragraphs 3.2(h) and (i).

Current/non-current distinction

- 3.4 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 3.5 and 3.6.

Current assets

- 3.5 An entity shall classify an asset as current when:
- (a) it expects to convert the asset to cash (eg by selling it), or consume it, within twelve months after the reporting date;
 - (b) it holds the asset primarily for the purpose of trading; or
 - (c) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

An entity shall classify all other assets as non-current.

Current liabilities

- 3.6 An entity shall classify a liability as current when:
- (a) the liability is due to be settled within twelve months after the reporting date;
 - (b) it holds the liability primarily for the purpose of trading; or
 - (c) the entity does not have the right to defer settlement of the liability for at least twelve months after the reporting date.

An entity shall classify all other liabilities as non-current.

Sequencing and format of items in the statement of financial position

- 3.7 This Standard does not prescribe the sequence or format in which items are to be presented. In addition, the descriptions used and the sequencing of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information relevant to an understanding of the entity's financial position.

Information to be presented in the statement of financial position or in the notes

- 3.8 An entity shall disclose, either in the statement of financial position or in the notes, further subclassifications of the line items presented when those amounts are material to an understanding of the entity's financial position, classified in a manner appropriate to the entity's operations. This includes, for example:
- (a) for property, plant and equipment, classifications appropriate to the entity;
 - (b) for trade and other receivables, showing separately the amounts due from related parties from those due from other parties;
 - (c) for inventories, showing separately amounts of inventories:
 - (i) held for sale or distribution in the ordinary course of operations;
 - (ii) in the process of production for such sale or distribution; and
 - (iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services;
 - (d) for trade and other payables, showing separately amounts payable to trade suppliers from those payable to related parties;
 - (e) showing deferred revenue obligations separately from other liabilities;
 - (f) for provisions, showing separately provisions for employee benefits from other provisions; and
 - (g) disaggregating equity into its classes, such as contributed capital, retained earnings, reserves and items of income and expense that, as permitted or required by this Standard, are recorded in other comprehensive income and presented separately in equity (including any revaluation surplus).
- 3.9 An entity shall disclose the amount of contributed capital and changes in its amount during the period, and the rights and any restrictions attaching to contributed capital at the reporting date. These disclosures apply to entities with share capital and entities with any other form of contributed capital, such as partnerships or trusts.
- 3.10 In applying paragraph 3.6, if an entity classifies liabilities arising from loan arrangements as non-current although the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting date, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting date, including:
- (a) information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities; and
 - (b) any facts and circumstances that indicate the entity might have difficulty complying with the covenants – for example, the entity having acted during or after the reporting period to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the reporting date.

Section 4: Statement(s) of Financial Performance

Scope of this section

- 4.1 This section requires an entity to present its total comprehensive income for a reporting period – ie its financial performance for the period – across one or two financial statements. It sets out the information to be presented in those statements and how to present it.

Presentation of total comprehensive income

- 4.2 An entity shall present its total comprehensive income for a period either:
- (a) in a single statement of profit or loss and other comprehensive income, in which case the statement presents all items of income and expense recorded in the period; or
 - (b) in two statements – a statement of profit or loss and a statement of comprehensive income – in which case the statement of profit or loss presents all items of income and expense recorded in the period except those that are recorded in total comprehensive income outside profit or loss as permitted or required by this Standard.

- 4.3 An entity's total comprehensive income for a reporting period is the change in equity during that period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners. It comprises all components of 'profit or loss' and of 'other comprehensive income'. This Standard requires different treatment of items of income and expense in the following circumstances:
- (a) the effects of corrections of prior period errors and changes in accounting policies are presented as retrospective adjustments of prior periods instead of as part of the total comprehensive income for the current period (see Section 9); and
 - (b) items of other comprehensive income are recorded outside profit or loss when they arise.
- 4.4 A change between presenting total comprehensive income using the single-statement approach and the two-statement approach is not a change in accounting policy.

Single-statement approach

- 4.5 Under the single-statement approach, the statement of profit or loss and other comprehensive income shall include all items of income and expense recorded in a period unless this Standard requires otherwise.
- 4.6 An entity shall include, in the statement of profit or loss and other comprehensive income, line items that present the following amounts for the period when those amounts are material to an understanding of the entity's financial performance:
- (a) revenue;
 - (b) finance costs;
 - (c) share of the profit or loss of investments in associates and joint ventures accounted for using the equity method or, where applicable, the share of the profit or loss of investments in notable relationship entities accounted for using the equity method;
 - (d) tax expense;
 - (e) profit or loss (if an entity has no items of other comprehensive income, this line need not be presented);
 - (f) each item of other comprehensive income classified by nature (excluding amounts in (g)).
 - (g) share of the other comprehensive income of associates and joint ventures accounted for using the equity method or, where applicable, the share of the other comprehensive income of notable relationship entities accounted for using the equity method; and
 - (h) total comprehensive income (if an entity has no items of other comprehensive income, it may use another term for this line, such as 'profit or loss').
- 4.7 An entity shall disclose separately the following items in the statement of profit or loss and other comprehensive income as allocations for the period:
- (a) profit or loss for the period attributable to:
 - (i) non-controlling interests; and
 - (ii) owners of the parent; and
 - (b) total comprehensive income for the period attributable to:
 - (i) non-controlling interests; and
 - (ii) owners of the parent.

Two-statement approach

- 4.8 Under the two-statement approach, the statement of profit or loss shall display, as a minimum, line items that present the amounts in paragraph 4.6(a)–4.6(e) for the period, with profit or loss as the last line. The statement of comprehensive income shall begin with profit or loss as its first line and shall display, as a minimum, line items that present the amounts in paragraph 4.6(f)–4.6(h) and paragraph 4.7 for the period.

Requirements applicable to both approaches

- 4.9 An entity shall present additional line items, headings and subtotals in the statement(s) of financial performance when such presentation is relevant to an understanding of the entity's financial performance.

- 4.10 An entity shall not present or describe any items of income and expense as ‘extraordinary items’ in the statement(s) of financial performance or in the notes.

Structured summary of expenses

- 4.11 An entity shall present a structured summary of its expenses in the statement of profit or loss and other comprehensive income, or in the notes, classifying expenses by the nature of expenses or the function of expenses within the entity, or both, whichever way provides the most useful structured summary of its expenses.

Classification by nature of expense

- (a) Under this method of classification, expenses are aggregated according to their nature (for example, depreciation, materials used, grants and donations made, transport costs, employee benefits, information technology support and advertising costs) and are not reallocated among various functions within the entity.

Classification by function of expense

- (b) Under this method of classification, expenses are aggregated according to their function as part of the costs of pursuing the entity’s mission, for example, the costs of providing educational services, advice or other community services, the cost of sales and the costs of distribution or administrative activities.

- 4.12 In determining how to use the characteristics of nature and function to provide the most useful structured summary of expenses, an entity shall consider the main components and drivers of the entity’s financial performance, how the entity’s operations are managed and the classifications commonly used by entities in the same industry. An entity shall not classify expenses to a function if the allocation of expenses to that function would be so arbitrary that the amount presented would not provide a faithful representation of that function.
- 4.13 If an entity classifies and presents some expenses by nature and other expenses by function, it shall label the resulting items in a way that clearly identifies which expenses are included in each item presented. For example, if an entity includes some employee benefits in a function line item and other employee benefits in a nature line item, the label for the nature line item would clearly identify that it does not include all employee benefits (eg ‘employee benefits excluding those included in cost of sales’).
- 4.14 An entity that classifies and presents some or all expenses by function within the entity shall nonetheless disclose the items of expense that are required to be disclosed by other sections of this Standard (eg impairment losses).

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

Scope of this section

- 5.1 This section sets out requirements for presenting the changes in an entity’s equity for a reporting period, either in a statement of changes in equity or, if the conditions specified in paragraph 5.4 are met and an entity so chooses, in a statement of income and retained earnings. It sets out the information to be presented in those statements and how to present it.

Statement of changes in equity

Purpose

- 5.2 The statement of changes in equity presents an entity’s profit or loss for a reporting period, other comprehensive income for the period, the effects of changes in accounting policies and corrections of prior period errors, and the amounts of investments by, and distributions to, owners acting in their capacity as owners during the period.

Information to be presented in the statement of changes in equity

- 5.3 The statement of changes in equity shall include the following information:

- (a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- (b) for each component of equity, the effects of retrospective application or retrospective restatement recorded in accordance with Section 9; and
- (c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
 - (i) profit or loss;
 - (ii) other comprehensive income; and
 - (iii) the amounts of contributions by owners acting in their capacity as owners, and changes in ownership interests in subsidiaries that do not result in a loss of control.

Statement of income and retained earnings

Purpose

- 5.4 The statement of income and retained earnings presents an entity's profit or loss and changes in retained earnings for a reporting period. Paragraph 2.20 permits an entity to present a statement of income and retained earnings in place of a statement(s) of financial performance 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, corrections of prior period errors and changes in accounting policy. Accordingly, an entity shall not present a statement of income and retained earnings if a transfer between classes of equity (eg between retained earnings and capital reserves) occurs, or items of other comprehensive income (eg a movement in asset revaluation surplus) are recorded, during the reporting period or any comparative period presented.
- 5.5 A change between presenting a statement of income and retained earnings and presenting both a statement(s) of financial performance and a statement of changes in equity is not a change in accounting policy.

Information to be presented in the statement of income and retained earnings

- 5.6 An entity shall present in the statement of income and retained earnings the information required by Section 4, and additionally:
 - (a) retained earnings as at the beginning of the reporting period;
 - (b) restatements of retained earnings for corrections of prior period errors;
 - (c) restatements of opening retained earnings for changes in accounting policy; and
 - (d) retained earnings as at the reporting date.

Section 6: Statement of Cash Flows

Scope of this section

- 6.1 This section sets out the information to be presented in a statement of cash flows and how to present it. The statement of cash flows provides information about the changes in cash and cash equivalents of an entity for a reporting period, showing separately changes from operating activities and changes from other activities.

Cash equivalents

- 6.2 Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. They include at-call deposits with banks, term deposit investments with a maturity not exceeding three months from their date of purchase and bank overdrafts that are repayable on demand and form an integral part of an entity's cash management.

Information to be presented in the statement of cash flows

- 6.3 An entity shall present a statement of cash flows that presents, at a minimum, cash flows for a reporting period classified by operating activities and other activities. Other activities comprise the entity's investing activities and financing activities. An entity may classify and present cash flows from investing activities separately from cash flows from financing activities instead of presenting cash flows from other activities.

Operating activities

- 6.4 An entity's operating activities are its principal activities. Consequently, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

- (a) cash receipts from grants and donations, excluding grants and donations that are restricted for the construction or other acquisition of long-term assets (eg property, plant and equipment);
- (b) cash receipts from the sale of goods and the rendering of services;
- (c) cash receipts from membership fees and subscriptions;
- (d) cash payments to suppliers for goods and services;
- (e) cash payments to and on behalf of employees;
- (f) grants and donations paid to beneficiaries; and
- (g) cash receipts from investments, and cash receipts and payments from loans, when those investments or loans are held for dealing or trading purposes.

Some transactions, such as the sale of a building, may give rise to a gain or loss included in profit or loss. However, the cash flows relating to such transactions are not typically cash flows from operating activities.

Other activities

- 6.5 Activities other than operating activities are:

- (a) the acquisition and disposal of long-term assets and other investments not included in cash equivalents; and
- (b) activities that result in changes in the size and composition of the contributed equity and borrowings of an entity.

- 6.6 Examples of cash flows arising from other activities are:

- (a) cash payments to acquire or construct long-term assets such as property, plant and equipment;
- (b) cash receipts from sales of long-term assets such as property, plant and equipment;
- (c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures;
- (d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures; and
- (e) cash receipts and payments from borrowing and repaying loan principal, for loans that are not held for dealing or trading purposes.

Reporting cash flows from operating activities

- 6.7 An entity shall present cash flows from operating activities using either the indirect method in paragraphs 6.8 and 6.9 or the direct method in paragraph 6.10.

Indirect method

- 6.8 Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments and items of income or expense associated with investing or financing cash flows. Under that method, the entity shall adjust profit or loss for the effects of:

- (a) changes during the period in inventories and receivables and payables arising from operating activities;
- (b) non-cash items such as depreciation, provisions, accrued income (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, undistributed profits of associates and non-controlling interests; and
- (c) all other items for which the cash flows relate to investing or financing activities.

- 6.9 Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the relevant revenues and expenses disclosed in the statement(s) of profit or loss and other comprehensive income and the changes during the period in inventories and receivables and payables arising from operating activities.

Direct method

- 6.10 Under the direct method, net cash flow from operating activities is presented by disclosing information about major classes of gross cash receipts and gross cash payments. Such information may be obtained either:
- (a) from the accounting records of the entity; or
 - (b) by adjusting sales, cost of sales and other items in the statement(s) of profit or loss and other comprehensive income for:
 - (i) changes during the period in inventories and receivables and payables arising from operating activities;
 - (ii) other non-cash items; and
 - (iii) other items for which the cash effects are investing or financing cash flows.

Reporting cash flows from other activities

- 6.11 An entity shall present separately major classes of gross cash receipts and gross cash payments arising from its activities other than operating activities. An entity that classifies cash flows from investing activities separately from cash flows from financing activities shall present cash flows from acquisitions and disposals of notable relationship entities (or subsidiaries or other operating units, as applicable) as cash flows from investing activities.

Reporting cash flows on a net basis

- 6.12 Cash flows arising from operating and other activities may be reported on a net basis when they are cash receipts and cash payments for items in which the turnover is quick, the amounts are large and the maturities are short (eg the borrowing and repayment of short-term loans).

Interest and dividends

- 6.13 An entity shall present separately cash flows from interest paid and interest and dividends received. The entity shall classify these cash flows consistently from period to period.
- 6.14 An entity may classify interest paid and interest and dividends received as cash flows from operating activities because they are included in profit or loss. Alternatively, the entity may classify interest paid and interest and dividends received as cash flows from other activities because they are costs of obtaining financial resources or returns on investments.

Income tax

- 6.15 An entity shall present separately cash flows arising from income tax and shall classify them as cash flows from operating activities unless they can be specifically identified with an investing activity or a financing activity. When tax cash flows are allocated over more than one class of activity, the entity shall disclose the total amount of taxes paid.

Non-cash transactions

- 6.16 An entity shall exclude from the statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalents. An entity shall disclose such transactions, separately or together, elsewhere in the financial statements in a way that provides all the relevant information about those other activities.
- 6.17 Many investing and financing activities do not have a direct impact on current cash flows even though they affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows because these items do not involve cash flows in the current period. Examples of non-cash transactions are:
- (a) the receipt of donated assets;
 - (b) the acquisition of assets by assuming directly related liabilities; and
 - (c) the acquisition of an entity by means of an equity issue.

Components of cash and cash equivalents

- 6.18 An entity shall disclose the components of cash and cash equivalents.
- 6.19 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are unavailable for use by the entity. Cash and cash equivalents held by an entity may be unavailable for use by the entity because of, among other reasons, foreign exchange controls or legal restrictions.

Section 7: Notes to the Financial Statements

Scope of this section

- 7.1 This section sets out the information to be presented in the notes to the financial statements and how to present it. Notes contain information in addition to that presented in:
- (a) the statement of financial position;
 - (b) whichever of the following statements are presented: the statement(s) of financial performance, the statement of income and retained earnings, and the statement of changes in equity; and
 - (c) the statement of cash flows.
- 7.2 Notes provide narrative descriptions or disaggregation of items presented in those statements and information about items that do not qualify for recording in those statements. In addition to the requirements of this section, nearly every other section of this Standard requires disclosures that are normally presented in the notes.

Structure of the notes

- 7.3 The notes shall:
- (a) present information about the basis of preparation of the financial statements and the accounting policies used, in accordance with paragraphs 7.6–7.8; and
 - (b) disclose material information that is not presented elsewhere in the financial statements and either specifically required by this Standard or otherwise relevant to an understanding of any of the financial statements.
- 7.4 An entity shall, as far as practicable, present the notes in a systematic manner. An entity shall cross-reference each item in the financial statements to any related information in the notes.
- 7.5 Examples of systematic ordering or grouping of the notes include:
- (a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping information about particular operating activities;
 - (b) grouping information about items measured similarly, such as assets measured at fair value; and
 - (c) following the order of the line items in the statement of financial position and the statement(s) of financial performance, such as:
 - (i) statement of compliance with this Standard (see paragraph 2.3);
 - (ii) material accounting policy information (see paragraph 7.6);
 - (iii) supporting information for items presented in the statement of financial position, the statement(s) of profit or loss and other comprehensive income, and the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and
 - (iv) other disclosures, including:
 - (1) contingent liabilities (see paragraph 19.15), contingent assets (see paragraph 19.17) and unrecorded firm commitments; and
 - (2) non-financial disclosures, if any.

Disclosure of accounting policy information

- 7.6 An entity shall disclose material accounting policy information. Accounting policy information is material if, when considered together with other information included in the entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Information about judgements

- 7.7 An entity shall disclose, in the notes, the judgements, apart from those involving estimations (see paragraph 7.8), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recorded in the financial statements.

Information about key sources of estimation uncertainty

- 7.8 An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:
- (a) their nature; and
 - (b) their carrying amount as at the reporting date.

Audit fees

- 7.9 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for the following services performed during the reporting period:
- (a) the audit or review of the financial statements; and
 - (b) all other services.
- An entity shall disclose the nature of those other services.

Section 8: Consolidated and Separate Financial Statements

Notes to Board members

Based on the discussion at the 20-21 November 2025 Board meeting, paragraph 8.32 was amended to clarify that an entity discontinues fair value measurement and applies the cost model for an investment in unlisted equity instruments only when the variability in the range of reasonable fair value measurements is significant and their probabilities cannot be reasonably assessed. This change is also implemented in Sections 10 and 13.

On further consideration of paragraph 8.32, staff think the requirement to cease measuring an investment at fair value and to commence measuring it at cost less impairment could be interpreted as being a required change in accounting policy. Staff note that paragraphs 15.14 and 16.15 set out requirements for similar circumstances involving property, plant and equipment and intangible assets. These paragraphs include instructions that the change in measurement is not a change in accounting policy (ie it should be treated as a change in estimate). To avoid potential diversity in practice, staff propose including a similar sentence as that in 15.14 (see new last sentence), for the reason that the circumstances are similar and so should be treated similarly. Otherwise, staff note that some practitioners may require the entity to treat the change in measurement as a change in accounting policy, and restate opening balances as though the investment had always been measured at cost less impairment. This proposed change is also reflected in paragraphs 10.12 and 13.21.

Scope of this section

- 8.1 This section sets out the accounting by an entity that is a parent or an investor in a notable relationship entity.

Classification

- 8.2 A parent is an entity (an investor) that controls another entity (an investee). An entity that is a parent shall present consolidated financial statements. An entity that is a parent may, in addition, present separate financial statements.
- 8.3 Notwithstanding paragraph 8.2, an entity, including a parent, may elect to collectively classify its investments in subsidiaries, investments in associates and interests in joint arrangements that involve a separate vehicle as investments in notable relationship entities. An investor that classifies these investments as investments in notable relationship entities does not present consolidated financial statements but prepares separate financial statements as its only financial statements in accordance with paragraphs 8.30—8.35.
- 8.4 A notable relationship between the entity and another entity (a ‘notable relationship entity’) exists when the investor has the power to, at a minimum, participate in the financial and operating policy decisions of that other entity. Paragraphs 13.5—13.7 provide guidance on when this might be evidenced. An entity that accounts for investments in notable relationship entities is not required to determine whether the nature of its relationship with the notable relationship entity is that of a parent, an investor in an associate, or a joint venturer or joint operator in a joint arrangement.
- 8.5 An entity does not need to hold an equity interest in another entity to be able to participate in the financial and operating policy decisions of that other entity. Similarly, an entity need not obtain a financial benefit from the other entity when assessing the nature of the entity’s involvement with that other entity.

Consolidated financial statements

- 8.6 Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity. A parent that presents consolidated financial statements in accordance with paragraph 8.2 shall present consolidated financial statements that include all subsidiaries of the parent. The consolidated financial statements shall not consolidate any entity that is not a subsidiary.

Assessing control of an investee

- 8.7 A subsidiary is an entity (an investee) controlled by another entity (an investor). An investor, regardless of the nature of its involvement with the investee, shall determine whether it is a parent by assessing whether it controls the investee.
- 8.8 An investor controls an investee when the investor has all the following:
- (a) power over the investee;
 - (b) exposure, or rights, to variable returns from its involvement with the investee; and
 - (c) the ability to use its power over the investee to affect the amount of the investor’s returns.
- 8.9 The investor shall reassess whether it controls an investee if circumstances indicate there are changes to one or more of the three elements of control listed in paragraph 8.8.
- 8.10 An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, which are the activities that significantly affect the investor’s returns. Relevant activities include, but are not limited to:
- (a) selling and purchasing goods or services;
 - (b) selecting, acquiring or disposing of assets;
 - (c) providing services in accordance with the investor’s objectives;
 - (d) fundraising;
 - (e) developing budgets in relation to the activities in (a) – (d); and
 - (f) appointing and remunerating an investee’s key management personnel and terminating their employment.
- 8.11 An investor with the current ability to direct the relevant activities has power even if its rights to direct them have yet to be exercised. Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but is not, in itself, conclusive in determining whether the investor has power over an investee.
- 8.12 An investor can have power even if it holds less than a majority of the voting rights of an investee, for example, through:

- (a) a contractual arrangement between the investor and other vote holders;
 - (b) rights arising from other contractual arrangements;
 - (c) the investor's voting rights;
 - (d) potential voting rights;
 - (e) rights to appoint, reassign or remove members of an investee's key management personnel who have the ability to direct the relevant activities; or
 - (f) a combination of (a)–(e).
- 8.13 When determining whether it has power, an investor considers its potential voting rights as well as potential voting rights held by other parties. Potential voting rights are rights to obtain voting rights of an investee, such as those arising from convertible instruments or options, including forward contracts. Those potential voting rights are considered only if the holder of the right has the practical ability to exercise that right. Usually, for the holder of the right to have the practical ability to exercise that right, the right needs to be currently exercisable.
- 8.14 If an investor also has voting or other decision-making rights relating to the investee's relevant activities, the investor assesses whether those rights, in combination with potential voting rights, give the investor power.
- 8.15 An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative or both positive and negative.
- 8.16 An investor's returns from its involvement with an investee are broad in nature, encompassing financial, non-financial, direct and indirect benefits, such as when the furtherance of the investee's financial and non-financial objectives contributes to the furtherance of the investor's financial and non-financial objectives. For example, the provision of goods or services by the investee to its beneficiaries might further the achievement of the investor's social policy objectives. These returns to the investor would reflect factors such as the efficiency and effectiveness of delivery of the goods and services and changes in the outcomes for beneficiaries.
- 8.17 When an investor with decision-making rights (a decision-maker) assesses whether it controls an investee, it shall determine whether it is a principal or an agent. An investor shall also determine whether another entity with decision-making rights is acting as an agent for the investor. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority. Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal. A decision-maker is not an agent solely because other parties can benefit from the decisions it makes.

Consolidation procedures

- 8.18 In preparing consolidated financial statements, an entity shall:
- (a) combine the financial statements of the parent and its subsidiaries line by line, by adding together like items of assets, liabilities, equity, income, expenses and cash flows;
 - (b) eliminate the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary;
 - (c) eliminate in full intragroup assets, liabilities, equity, income, expenses and cash flows (including dividends). Profits and losses resulting from intragroup transactions that are recorded in assets, such as inventory and property, plant and equipment, are eliminated in full. Intragroup losses may indicate an impairment that requires recording in the consolidated financial statements (see Section 23);
 - (d) measure and present non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period separately from the interest of the owners of the parent; and
 - (e) measure and present non-controlling interests in the net assets of consolidated subsidiaries separately from the parent owners' equity in them. Non-controlling interests in the net assets consist of:
 - (i) the amount of the non-controlling interests at the date of the original combination calculated in accordance with Section 17; and
 - (ii) the non-controlling interests' share of changes in equity since the date of the combination.

- 8.19 The proportions of profit or loss and changes in equity allocated to the owners of the parent and to the non-controlling interests are determined on the basis of existing ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

Uniform reporting date

- 8.20 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date unless doing so is impracticable. If it is impracticable to prepare the financial statements of a subsidiary as of the same reporting date as the parent, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary, adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall not exceed three months, and both the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period.

Uniform accounting policies

- 8.21 Consolidated financial statements shall be prepared using uniform accounting policies for like transactions, other events and conditions in similar circumstances. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and other events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Acquisition and disposal of subsidiaries

- 8.22 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date until the date on which the parent loses control of the subsidiary.

- 8.23 If a parent loses control of a subsidiary, the parent:

- (a) ceases recording:
 - (i) the assets and liabilities at their carrying amounts at the date control is lost in the former subsidiary; and
 - (ii) the carrying amount of any non-controlling interests in the former subsidiary at the date control is lost (including any components of other comprehensive income attributable to them);
- (b) records:
 - (i) the fair value of the consideration received, if any, from the transaction, other event or circumstances that resulted in the loss of control; and
 - (ii) any investment retained in the former subsidiary at its fair value as at the date control is lost; and
- (c) records the gain or loss associated with the loss of control attributable to the former controlling interest.

- 8.24 If a parent loses control of a subsidiary but continues to hold an interest in the former subsidiary, that interest shall be accounted for in accordance with the appropriate section of this Standard. If the retained interest is a financial asset, Section 10; and if it is an interest in an associate or a joint venture, Section 13 applies. The fair value at the date control is lost shall be regarded as the fair value on initial recording of a financial asset or the cost on initial recording of an investment in an associate or joint venture, if applicable.

Non-controlling interests in subsidiaries

- 8.25 An entity shall present non-controlling interests in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent, as required by paragraph 3.2(n).
- 8.26 An entity shall treat changes in a parent's controlling interest in a subsidiary that do not result in a loss of control as transactions with owners acting in their capacity as owners. Accordingly, the carrying amount of the non-controlling interests shall be adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interests are so adjusted and the fair value of the consideration paid or received, if any, shall be recorded directly in equity and attributed to

owners of the parent. An entity shall not record any gain or loss on these changes. Also, an entity shall not record any change in the carrying amounts of assets or liabilities as a result of such transactions.

- 8.27 Profit or loss and each component of other comprehensive income shall be attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income shall be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Disclosures in consolidated financial statements

- 8.28 In addition to the disclosures specified by Section 28, an entity shall disclose in its consolidated financial statements:
- (a) that the financial statements are consolidated financial statements;
 - (b) the basis for concluding that control exists if the parent does not own, directly or indirectly through subsidiaries, a majority of the voting rights of the other entity;
 - (c) any difference between the reporting dates of the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements; and
 - (d) the nature and extent of any significant restrictions (for example, resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans.

Separate financial statements

- 8.29 Separate financial statements are:
- (a) the financial statements presented by an investor that accounts for investments in notable relationship entities;
 - (b) a second set of financial statements that a parent elects to present in addition to consolidated financial statements; or
 - (c) a second set of financial statements that an investor that is not a parent but has one or more investments in associates or joint ventures elects to present.

Measurement

- 8.30 An entity shall measure investments in notable relationship entities at:
- (a) cost, less any accumulated impairment losses determined in accordance with Section 10;
 - (b) fair value; or
 - (c) the equity method-based amount, determined by following the procedures in paragraph 13.22.
- The entity shall apply the same accounting policy to all investments in notable relationship entities.
- 8.31 Changes in the fair value of investments in notable relationship entities measured at fair value shall be presented in profit or loss unless the entity makes an irrevocable election, on the initial recording of the first asset in this class of assets, to present such changes in other comprehensive income. When an entity presents changes in the fair value of investments in notable relationship entities in other comprehensive income, those changes shall not subsequently be transferred to profit or loss.
- 8.32 Notwithstanding paragraph 8.30, an entity that elects to measure investments in notable relationship entities at fair value shall discontinue measuring an investment that is represented by unlisted equity instruments 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 investments shall be measured at cost less any accumulated impairment losses. In these instances, the carrying amount of the investment on the date its fair value was last determinable shall be regarded as its cost. An entity shall resume measuring the investment at fair value when these conditions are no longer relevant. A change in the measurement of an investment in the circumstances described in this paragraph is not a change in accounting policy.
- 8.33 When an entity that classifies its investments as subsidiaries, associates or joint ventures prepares separate financial statements, the entity shall choose one of the accounting policies specified in paragraphs 8.30—8.31 and shall apply that policy to entire class of investments.

Disclosures in separate financial statements

- 8.34 When an entity prepares separate financial statements, those separate financial statements shall disclose:
- (a) that they are separate financial statements; and
 - (b) a description of the method(s) used to account for its investments in notable relationship entities, or for its investments in subsidiaries, joint ventures and associates.
- 8.35 In addition to the disclosures specified by Section 27, in respect of each notable relationship entity, an entity shall disclose:
- (a) the name of the notable relationship entity;
 - (b) a description of the notable relationship entity's primary purpose and an indication of the nature of its operations;
 - (c) a description of the notable relationship entity's relationship with the reporting entity (eg that the entities operate a partnership, that the reporting entity is able to appoint the key management personnel of the notable relationship entity, or that the entity controls the notable relationship entity); and
 - (d) whether the notable relationship entity prepares audited or reviewed financial statements.

Section 9: Accounting Policies, Estimates and Errors

Scope of this section

- 9.1 This section provides requirements and guidance for selecting and applying the accounting policies used in preparing financial statements. It also covers changes in accounting estimates and corrections of errors in prior period financial statements.

Selection and application of accounting policies

- 9.2 Accounting policies are the specific principles and practices applied by an entity in preparing and presenting financial statements.
- 9.3 If this Standard specifically addresses a transaction, other event or condition, an entity shall apply this Standard. However, the entity need not follow a requirement in this Standard if the effect of doing so would be immaterial.

Accounting policies

- 9.4 If this Standard does not specifically address a transaction, other event or condition and paragraphs 1.5(a)–(g) do not apply, management shall use its judgement in developing and applying an accounting policy that results in information that is:
- (a) relevant to the information needs of users of financial statements; and
 - (b) reliable, in that the financial statements:
 - (i) represent faithfully the financial position, financial performance and cash flows of the entity;
 - (ii) reflect the economic substance of transactions, other events and conditions, and not merely their legal form;
 - (iii) are neutral, ie free from bias;
 - (iv) are prudent; and
 - (v) are complete in all material respects.
- 9.5 In making the judgement described in paragraph 9.4, management shall refer to, and consider the applicability of, the following sources in descending order:
- (a) the requirements and guidance in this Standard dealing with similar and related issues; and
 - (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework*.

In making this judgement, management may also consider the requirements and guidance in other Australian Accounting Standards dealing with similar and related issues, to the extent that those requirements and guidance do not conflict with this Standard.

Consistency of accounting policies

- 9.6 An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless this Standard specifically requires or permits categorisation of items for which different policies may be appropriate. If this Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

Changes in accounting policies

- 9.7 An entity shall change an accounting policy only if the change:
- (a) is required by this Standard; or
 - (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.
- 9.8 Except as noted in paragraphs 4.4 and 5.5, where this Standard allows a choice of accounting treatment (including the measurement basis) for a specified transaction, other event or condition and an entity changes its choice, that is a change in an accounting policy. A change to applying the cost model when a reliable measure of fair value is no longer available, or reverting to applying the revaluation model when a reliable measure of fair value once again becomes available, for an asset that this Standard would otherwise require or permit to be measured at fair value is not a change in an accounting policy.

Applying changes in accounting policies

- 9.9 An entity shall account for:
- (a) a change in an accounting policy resulting from a change in the requirements of this Standard in accordance with the transitional provisions, if any, applying to that change; and
 - (b) all other changes in accounting policies retrospectively, using the modified retrospective approach specified in paragraphs 9.10–9.11. This applies to voluntary changes in accounting policies and changes in accounting policies resulting from a change in the requirements of this Standard without accompanying specified transitional provisions.

Modified retrospective approach

- 9.10 When a change in an accounting policy is applied retrospectively in accordance with paragraph 9.9, the entity shall record the cumulative effect of the new accounting policy at the beginning of the current reporting period, as if the new accounting policy had always been applied and without restating information presented in prior periods (a 'modified retrospective approach'). The entity shall, as at the beginning of the current reporting period:
- (a) adjust the opening balance of each affected asset and liability for the cumulative effect of applying the new accounting policy; and
 - (b) make a corresponding adjustment to the opening balance of each affected component of equity (eg retained earnings).
- The effects of the change in accounting policy pertaining to prior periods presented are not included in profit or loss of the current reporting period.
- 9.11 Notwithstanding paragraph 9.10, when it is impracticable to determine the cumulative effect, as at the beginning of the current period, of applying a new accounting policy retrospectively to all prior periods, the entity shall:
- (a) adjust the opening balances of the current reporting period for affected assets, liabilities and items of equity to reflect application of the new accounting policy prospectively from the earliest date practicable, which may be the beginning of the current period; and
 - (b) disregard the portion of the cumulative adjustment to assets, liabilities and items of equity arising before the date in (a).

- 9.12 The initial application of a policy to revalue assets in accordance with Section 15 and Section 16 is a change in an accounting policy to be dealt with as a revaluation in accordance with Section 15 and Section 16. Consequently, a change from the cost model to the revaluation model for a class of property, plant and equipment or intangible assets shall be accounted for prospectively, instead of in accordance with paragraphs 9.10–9.11.

Disclosure of a change in an accounting policy

- 9.13 When an amendment to this Standard or a voluntary change in an accounting policy affects the opening balances of assets, liabilities or items of equity for the current period or other amounts recorded for the current period, an entity shall disclose the following:
- (a) the nature of the change in accounting policy;
 - (b) the amounts of the adjustments to the opening balances for the current period, to the extent practicable; and
 - (c) for all other effects on the assets, liabilities, income and expenses for the current period, the amount of the adjustment for each financial statement line item affected.

When a modified retrospective approach applies to a change in an accounting policy, the entity's note disclosing the material accounting policies used (see paragraph 7.3(a)) shall disclose that fact and that the comparative information presented for prior periods was not adjusted.

- 9.14 When a voluntary change in an accounting policy affects the opening balances of assets, liabilities or items of equity for the current period or other amounts recorded for the current period, an entity shall disclose the reasons why applying the new accounting policy provides reliable and more relevant information.
- 9.15 The disclosures made in accordance with paragraph 9.13 or 9.14 need not be repeated in financial statements of subsequent periods.

Accounting estimates

- 9.16 Some items in financial statements are subject to measurement uncertainty – that is, under the measurement basis applied, their amounts cannot be observed directly and must instead be estimated using judgements or assumptions about such matters as the fair value of infrequently sold assets, amounts recoverable from overdue receivables or old inventory and the remaining useful lives of items of property, plant and equipment.

Changes in accounting estimates

- 9.17 An entity may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. The revision of an accounting estimate does not relate to prior periods and is not a correction of an error.
- 9.18 An entity shall record the effect of a change in an accounting estimate, other than a change to which paragraph 9.21 applies, prospectively from the date of the change in estimate by including it in profit or loss in:
- (a) the period of the change, if the change affects that period only; or
 - (b) the period of the change and future periods, if the change affects both.
- 9.19 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, the entity shall record it by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Disclosure of changes in accounting estimates

- 9.20 An entity shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expenses for the current period.

Corrections of prior period errors

- 9.21 Prior period errors are omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
- (a) was available when financial statements for those periods were authorised for issue; and

- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
- 9.22 Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.
- 9.23 Potential errors identified during the reporting period shall be corrected before the financial statements are authorised for issue. To the extent practicable, an entity shall correct a material prior period error retrospectively in the first set of financial statements authorised for issue after its discovery by:
 - (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
 - (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.
- 9.24 When it is impracticable to determine the effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which might be the beginning of the current period).

Disclosure of prior period errors

- 9.25 An entity shall disclose the following about each prior period error:
 - (a) a description of the error;
 - (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
 - (c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; and
 - (d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c).
 These disclosures need not be repeated in financial statements of subsequent periods.

Section 10: Financial Instruments

Scope of this section

- 10.1 A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
- 10.2 Section 10 applies to financial assets and financial liabilities that are basic financial instruments and other financial instruments commonly held by Tier 3 entities, and that are not addressed by another section of this Standard. These financial instruments include:
 - (a) cash and cash equivalents;
 - (b) trade and other receivables ('debtors');
 - (c) security bonds (eg residential bonds);
 - (d) term deposits;
 - (e) government and listed corporate bonds;
 - (f) units held in managed investment schemes, unit trusts and similar investment vehicles;
 - (g) ordinary shares and non-convertible preference shares held in listed or 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;
 - (h) trade and other payables ('creditors'); and
 - (i) loans.
- 10.3 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.
- 10.4 An entity applying this Standard shall apply the recording, measurement, presentation and transition requirements of AASB 9 *Financial Instruments* and other applicable Australian Accounting Standards, and the relevant disclosure requirements of AASB 1060, to the following financial instruments:
 - (a) unlisted purchased debt instruments (eg unlisted corporate bonds and unlisted convertible notes);

- (b) acquired equity instruments other than ordinary shares and non-convertible preference shares;
 - (c) financial guarantee contracts; and
 - (d) derivative financial instruments (eg interest rate swaps and forward exchange contracts).
- 10.5 An entity applying this Standard shall not:
- (a) separately record any embedded derivatives;
 - (b) record a commitment to provide a loan at a below-market interest rate; or
 - (c) notwithstanding paragraph 10.4, apply the hedge accounting requirements in AASB 9 to its financial assets and financial liabilities.

Initial recording of financial assets and liabilities

- 10.6 An entity shall record a financial asset or a financial liability when and only when:
- (a) cash is received; or
 - (b) the entity otherwise becomes a party to the contractual provisions of the instrument.
- 10.7 An entity is a party to the contractual provisions of a financial instrument when, for example:
- (a) the entity has the legal right to receive cash from a debtor following the transfer of goods or services;
 - (b) the entity lends money to a borrower under a loan arrangement;
 - (c) the entity acquires equity instruments;
 - (d) the entity receives funds under a loan arrangement or bank overdraft facility; or
 - (e) the entity is legally obliged to pay for goods or services received from a supplier.

Initial measurement

- 10.8 Subject to paragraphs 10.9 and 10.10, when a financial asset or financial liability is initially recorded, an entity shall measure it at its fair value (excluding transaction costs). Transaction costs and upfront fees incurred are expensed immediately.
- 10.9 Trade and other receivables shall be initially measured at the transaction price. Guidance on the recording of any related revenue is set out in Section 20.
- 10.10 A concessional loan shall be initially measured at its transaction price. A concessional loan is a loan that has significantly below-market terms and conditions principally to enable the reporting entity to further its objectives.

Subsequent measurement

- 10.11 After initial recording, an entity shall measure financial assets and financial liabilities as follows:
- (a) financial assets held to generate both income and a capital return for the entity (including all investments in equity instruments) shall be measured at fair value, except when paragraph 10.12 applies;
 - (b) all other financial assets shall be measured at cost less any accumulated impairment losses; and
 - (c) all financial liabilities shall be measured at cost.
- 10.12 Notwithstanding paragraph 10.11(a), an entity shall discontinue 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 shall be measured at cost less any accumulated impairment losses. In these instances, the carrying amount of the instrument on the date its fair value was last determinable shall be regarded as its cost. An entity shall resume measuring an investment in an unlisted equity instrument at fair value when these conditions are no longer relevant. A change in the measurement of an investment in the circumstances described in this paragraph is not a change in accounting policy.
- 10.13 Changes in the fair value of financial assets held to generate both income and a capital return for the entity shall be presented in profit or loss unless the entity makes an irrevocable election, on the initial recording of the first asset in a class of financial assets, to present changes in the fair value of that class of financial assets in other comprehensive income. When an entity presents changes in the fair value of financial assets in other comprehensive income, those changes shall not subsequently be transferred to profit or loss.

- 10.14 The cost of a financial asset or financial liability as at each reporting date (before any reduction, directly or through the use of an allowance account, for impairment) is the net of the following amounts:
- (a) the amount at which the financial asset or financial liability is measured at initial recording;
 - (b) minus any repayments of the principal; and
 - (c) plus or minus any prepayments or overdue payments of interest.

Cost as estimated fair value of investments in equity instruments

- 10.15 An entity shall use valuation techniques that maximise the use of relevant observable inputs when measuring the fair value of investments in equity instruments that do not have a quoted price. In limited circumstances, the cost of an equity instrument might be an appropriate estimate of the instrument's fair value. This may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.
- 10.16 Indicators that the cost of an equity instrument that does not have a quoted price might not be representative of its fair value include:
- (a) the transaction to acquire the financial asset was between related parties. (However, the price in a related party transaction might be used as an input into a fair value measurement if the transaction was conducted at market terms);
 - (b) the transaction occurred under duress or the seller was forced to accept the sales price in the transaction because the seller was experiencing financial difficulty); and
 - (c) there has been one or more significant developments or unexpected changes since the equity instruments were acquired, in:
 - (i) the investee's operating performance, strategy or economic environment (eg market demand for its outputs); or
 - (ii) valuations implied by the overall market (eg due to changes in market interest rates).
- 10.17 The fair value of a quoted equity instrument can always be measured reliably. Cost is never the best estimate of fair value for investments in quoted equity instruments.

Dividend income

- 10.18 Dividends are recorded as amounts receivable and income in profit or loss only when:
- (a) a dividend payable to the entity for a determinable amount has been declared; and
 - (b) publicly available information does not indicate that the dividend might not be collectible.

Interest income and interest expense

- 10.19 Interest income and interest expense is measured by reference to the financial instrument's contractual interest rate.

Impairment of financial assets measured at cost

Recording

- 10.20 At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any financial assets measured at cost. If there is objective evidence of impairment, the entity shall record an impairment loss in profit or loss immediately. An entity shall assess financial assets for impairment either individually or grouped on the basis of similar credit risk characteristics.
- 10.21 Objective evidence that a financial asset, or group of assets, is impaired includes observable data that come to the attention of the entity about the following loss events:
- (a) significant financial difficulty of the issuer or obligor;
 - (b) a breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) the entity, for economic or legal reasons relating to a debtor's financial difficulty, granting to the debtor a concession that the entity would not otherwise consider;
 - (d) it has become probable that the debtor will enter bankruptcy or other financial reorganisation; or

- (e) there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recording of those assets, even though the decrease cannot yet be identified with individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.
- 10.22 Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the debtor or issuer operates.

Measurement

- 10.23 An entity shall measure an impairment loss for a financial asset measured at cost as the difference between the asset's carrying amount and the estimated future cash flows receivable.

Ceasing to record a financial asset

- 10.24 An entity shall cease to record a financial asset only when either:
- (a) the contractual rights to the cash flows from the financial asset expire or are settled; or
 - (b) the entity otherwise loses control of the financial asset.

Ceasing to record a financial liability

- 10.25 An entity shall cease to record a financial liability only when it is extinguished. A financial liability is extinguished when the obligation specified in the contract is discharged, is cancelled or expires.
- 10.26 A modification of the terms of a financial liability or an exchange of a debt instrument for a different debt instrument shall be treated as an extinguishment of the original financial liability.

Disclosures

Statement of financial position – categories of financial assets and financial liabilities

- 10.27 An entity shall disclose the carrying amount of each of the following categories of financial assets and financial liabilities as at the reporting date, in total, either in the statement of financial position or in the notes:
- (a) financial assets measured at fair value through profit or loss;
 - (b) financial assets measured at fair value through other comprehensive income;
 - (c) financial assets measured at cost less any accumulated impairment losses; and
 - (d) financial liabilities.
- 10.28 An entity shall disclose additional information that enables users of its financial statements to evaluate the significance of each individually significant loan payable or loan receivable for its financial position and performance. Such information would normally include the terms and conditions of the loan arrangement (such as interest rate, maturity and any restrictions that the arrangement imposes on the entity).
- 10.29 An entity shall disclose the total carrying amount of financial assets measured at a fair value that is based on a quoted price in an active market for an identical asset.

Collateral

- 10.30 When an entity has pledged financial assets as collateral for liabilities or contingent liabilities, it shall disclose the following:
- (a) the carrying amount of the financial assets pledged as collateral; and
 - (b) the terms and conditions relating to its pledge.

Defaults and breaches on loans payable

- 10.31 For loans payable recorded as at the reporting date for which a breach of terms or a default of principal, interest, sinking fund or redemption terms has not been remedied by the reporting date, an entity shall disclose the following:

- (a) details of that breach or default;
- (b) the carrying amount of the related loans payable as at the reporting date; and
- (c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

Items of income and expense, and gains or losses

- 10.32 An entity shall disclose the following items of income, expense, gains or losses:
- (a) income, expense, gains or losses, including changes in fair value, recorded on:
 - (i) financial assets measured at fair value through profit or loss;
 - (ii) financial assets measured at fair value through other comprehensive income;
 - (iii) financial assets measured at cost less any accumulated impairment losses; and
 - (iv) financial liabilities;
 - (b) total interest income and total interest expense; and
 - (c) the amount of any impairment loss for each class of financial asset.

Section 11: Fair Value Measurement

Scope of this section

- 11.1 This section applies when another section requires or permits fair value measurements or disclosures about fair value measurements.

Measurement

- 11.2 The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (ie, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).
- 11.3 Fair value is a market-based measurement, not an entity-specific measurement. Therefore, it is measured using the assumptions that market participants would use when pricing the asset or liability at the measurement date, taking into account the characteristics of the asset or liability that market participants would take into account. Such characteristics include, for example:
- (a) the condition and existing location of the asset; and
 - (b) legal restrictions, if any, on the sale or use of the asset (see paragraph 11.6(b)).
- 11.4 The market price used to measure the fair value of the asset or liability shall not be adjusted for transaction costs (ie costs directly attributable to selling an asset or transferring a liability, such as brokerage fees). Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction.
- 11.5 If location is a characteristic of the asset, the asset's market price shall be adjusted for transport costs.

Highest and best use for non-financial assets

- 11.6 A fair value measurement of a non-financial asset (eg property, plant and equipment) assumes a market participant would use the asset for its highest and best use, which takes into account:
- (a) the asset's physical characteristics (eg the location or size of a property);
 - (b) any legal restrictions affecting the market participant's use of the asset (eg the zoning regulations applicable to a property); and
 - (c) whether the use makes financial sense (eg whether a particular use would generate an adequate rate of return for market participants or deliver sufficient goods or services to beneficiaries).
- 11.7 An entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that it is highly probable that a different use by market participants would maximise the value of the asset. This exception would occur only when it is highly probable that, within one year of the

asset's measurement date, the asset will either be sold to a buyer who would use the asset for a different use or be redeployed by the entity.

Valuation techniques

- 11.8 When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique. The entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.
- 11.9 Three widely used valuation techniques are the market approach, the cost approach and the income approach. An entity shall use valuation techniques consistent with one or more of these approaches to measure fair value:
- (a) the market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. This would often be the case for financial assets and non-financial assets such as land, non-specialised buildings and non-specialised motor vehicles.
 - (b) the cost approach reflects the amount that would be required currently to replace an asset's service capacity (often referred to as current replacement cost).
 - (c) the income approach discounts future cash flows or income and expense items to their present value.
- 11.10 The cost approach considers that from the perspective of a market participant seller, the price that would be received for an asset is based on the cost to a market participant buyer to acquire or construct a substitute asset with the same age, technology, service capacity and condition as that of the asset held. That is because a market participant buyer would not pay more for an asset than the cost of replacing its service capacity. One reason the current replacement cost method may be used is that the asset is specialised and without readily observable market evidence.

Reliable measure of fair value

- 11.11 The fair value of an asset is reliably measurable if:
- (a) a market price of an identical asset or a similar asset is observable close to the measurement date; or
 - (b) either:
 - (i) the variability in the range of reasonable fair value measures is insignificant for that asset; or
 - (ii) the probabilities of the various measures within the range can be reasonably assessed and used in estimating fair value.
- 11.12 For assets for which a market price of an identical asset or a similar asset is not observable, there are many situations in which the variability in the range of reasonable fair value measures is likely to be insignificant. Normally it is possible to estimate the fair value of an asset that an entity has acquired recently from an outside party. However, if the range of reasonable fair value measures is significant and the probabilities of the various measures cannot be reasonably assessed, the entity is precluded from measuring the asset at fair value.

Section 12: Inventories

Scope of this section

- 12.1 This section applies to inventories. Inventories are assets:
- (a) in the form of materials or supplies to be consumed in producing goods or rendering services;
 - (b) held for sale or distribution in the ordinary course of operations; or
 - (c) in the process of production for such sale or distribution.
- 12.2 An entity's inventories might include food, clothing or goods held for distribution, stocks held in charity shops, information brochures, goods purchased for resale, consumable stores, maintenance materials, spare parts for plant and equipment, and work-in-progress.

Recording inventories

- 12.3 Inventories are recorded as an asset from when they are purchased by, or donated to, the entity.

Measurement of inventories

- 12.4 An entity shall measure inventories at cost. However, where a condition set out in paragraph 22.3 for assessing impairment is present, the entity shall measure:
- (a) inventories held for distribution – at cost less any loss of service potential; and
 - (b) all other inventories – at the lower of cost and estimated selling price less costs to complete and sell.
- 12.5 For the purposes of applying paragraph 12.4 for each item of inventory donated to the entity, that entity may elect to initially measure the cost of that item either at:
- (a) its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount); or
 - (b) its current replacement cost as at the date of donation. Any resulting increase in inventory is recorded as donation income (revenue) in accordance with Section 20.

Cost of inventories

- 12.6 An entity shall include in the cost of inventories all costs incurred in bringing the inventories to their present location and condition, including costs of purchase and, for inventories produced by the entity, costs of conversion (eg costs of converting raw materials and labour into finished goods).

Costs of purchase

- 12.7 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities) and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Costs excluded from inventories

- 12.8 Examples of costs excluded from the cost of inventories and recorded as expenses in the reporting period in which they are incurred are:
- (a) abnormal amounts of wasted materials, labour or other production costs;
 - (b) storage costs, unless those costs are necessary during the production process before a further production stage;
 - (c) administrative overheads that do not contribute to bringing inventories to their present location and condition. However, if an entity elects under paragraph 12.9 to exclude production overhead costs from the costs of conversion of inventories, all administrative overheads would be excluded from the cost of inventories; and
 - (d) selling costs.
- 12.9 Notwithstanding paragraph 12.6, an entity may exclude from the costs of conversion a systematic allocation of production overhead costs incurred in the conversion process, such as a share of depreciation and maintenance costs of buildings and equipment used to produce the inventories. In this case, this election shall be applied consistently to all inventories produced by the entity.

Cost of inventories of a service provider

- 12.10 Inventories of a service provider are measured at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recorded as expenses in the reporting period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

Techniques for measuring cost, such as standard costing, retail method, most recent purchase price and specific identification

- 12.11 An entity may use techniques such as the standard cost method, the retail method or most recent purchase price for measuring the cost of inventories if the result approximates cost. The standard cost method takes into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. Standard costs are regularly reviewed and, if necessary, revised in the light of current conditions. The retail method measures cost by reducing the sales value of the inventory by the appropriate gross margin percentage. Where feasible (eg for different items that ordinarily are not interchangeable) an entity may measure the cost of inventories by using specific identification of their individual costs.

Cost formulae

- 12.12 An entity shall measure the cost of inventories, other than those measured using specific identification of their individual costs, by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulae may be justified. The last-in, first-out (LIFO) method is not permitted by this Standard.

Recording as an expense

- 12.13 When inventories are sold or distributed, the entity shall record the carrying amount of those inventories as an expense in the reporting period in which the related sales revenue or distribution of inventory is recorded.
- 12.14 The amount of any write-down of inventories for impairment or loss of service potential and all losses of inventories shall be recorded as an expense in the reporting period in which the write-down or loss occurs.
- 12.15 If an item of inventory was donated without charge to the entity, and the entity elected under paragraph 12.5 to initially measure the item at its cost to the entity (nil), no expense is recorded on sale or distribution of the item.

Disclosures

- 12.16 An entity shall disclose the following:
- (a) accounting policy information about the measurement of inventories, including the cost formulae used;
 - (b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
 - (c) the amount of inventories recorded as an expense during the reporting period;
 - (d) the impairment losses for inventories recorded in profit or loss and the related line item(s) in the statement(s) of profit or loss and other comprehensive income; and
 - (e) the total carrying amount of inventories pledged as security for loans.
- 12.17 An entity shall disclose the basis or bases on which any loss of service potential of inventories held for distribution is assessed.
- 12.18 Where, in accordance with paragraph 12.5(a), an entity initially measures at cost a donated item of inventory, it shall make the disclosures specified by paragraphs 15.30 and 15.31 for donated items.

Section 13: Investments in Associates and Interests in Joint Arrangements

Scope of this section

- 13.1 This section applies to investors in associates and parties to a joint arrangement in:
- (a) the consolidated financial statements of a parent entity; and
 - (b) the financial statements of an entity that is an investor in one or more associates, or a party to a joint arrangement, but in either case is not a parent.

- 13.2 Notwithstanding paragraph 13.1(b), this section does not apply to investments in associates and joint arrangements that are collectively classified as a single class of assets in accordance with the alternative treatment permitted by paragraph 8.3.
- 13.3 An investor that is not a parent but has one or more investments in associates or joint ventures may, in addition, present separate financial statements. Paragraphs 8.30–8.35 specify the accounting for investments in associates and joint ventures in these separate financial statements, where prepared. Other parties to a joint arrangement, including a joint operator, shall account for its interest in the joint arrangement in accordance with the requirements of this section in those separate financial statements.

Associates

- 13.4 An associate is an entity over which the investor has significant influence. An associate may be an unincorporated entity, such as a partnership.
- 13.5 Significant influence is the power to participate in the financial and operating policy decisions of investee but is not control or joint control of those policies.
- 13.6 An entity applies judgement in assessing whether it has significant influence. If an entity holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of investee, it is presumed that the entity has significant influence, unless it can clearly be demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly, less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can clearly be demonstrated. The existence and effect of potential voting rights currently exercisable or convertible (including potential voting rights held by other entities) are considered when assessing whether an entity has significant influence.
- 13.7 The existence of significant influence by an entity is usually evidenced in one or more of the following ways:
- (a) representation on the board of directors or equivalent governing body of the investee;
 - (b) participation in policy-making processes, including participation in decisions about distributions of any surpluses;
 - (c) material transactions between the two entities;
 - (d) interchange of managerial personnel; and
 - (e) provision of essential technical information.

Joint arrangements

- 13.8 Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
- 13.9 An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (that is, the relevant activities). A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.
- 13.10 A joint arrangement is an arrangement of which two or more parties have joint control. Joint arrangements can take the form of a joint operation or a joint venture.
- 13.11 A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ('joint operators') have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint operation involves the use of the assets and other resources of the joint operators but does not require the establishment of a corporation, partnership or other entity, or a financial structure separate from the parties themselves. Each joint operator uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint operation's activities may be carried out by the joint operator's employees alongside that joint operator's similar activities. The joint arrangement agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the joint operators.
- 13.12 A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ('joint venturers') have rights to the net assets of the arrangement.
- 13.13 The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. An entity assesses its rights and obligations by considering the

structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

- 13.14 A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation as, for example, the terms agreed by the parties in their contractual arrangement and other facts and circumstances can override the rights and obligations conferred by the legal form of the separate vehicle. A joint arrangement that is structured through a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle is a joint operation. A joint arrangement that is not structured through a separate vehicle is a joint operation.

Measurement of investments in associates and joint ventures

- 13.15 An entity shall account for its investments in associates and joint ventures in its consolidated financial statements using the equity method in paragraph 13.22.
- 13.16 Where consolidated financial statements are not prepared, an entity shall account for its investments in associates and joint ventures using:
- (a) the cost model
 - (b) the fair value model; or
 - (c) the equity method.

A different policy may be selected for each class of assets.

Cost model

- 13.17 Under the cost model, an investment in an associate or a joint venture is measured at cost less any accumulated impairment losses recorded in accordance with Section 10.
- 13.18 Dividends and other distributions received are recorded as income in profit or loss when the entity has a legal right to the payment.

Fair value model

- 13.19 Under the fair value model, an investment in an associate or joint venture is initially measured at its fair value excluding transaction costs such as legal fees or other fees incurred as a direct result of buying the asset. Section 11 provides guidance on determining fair value.
- 13.20 After initial recording, an investor shall continue to measure investments in associates or joint ventures at fair value. Changes in fair value shall be recorded in profit or loss, except that an investor may make an irrevocable election, upon initial recording of its first investment in each class of asset, to record these changes in other comprehensive income. Any such election applies to the entire class of instruments.
- 13.21 An investor using the fair value model shall discontinue measuring an investment in an associate or joint venture that is represented by unlisted equity instruments 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 investments shall be measured in accordance with paragraph 13.17. In these instances, the carrying amount of the investment on the date its fair value was last determinable shall be regarded as its cost. An entity shall resume measuring the investment in an unlisted equity instrument at fair value when these conditions are no longer relevant. A change in the measurement of an investment in the circumstances described in this paragraph is not a change in accounting policy.

Equity method

- 13.22 Under the equity method of accounting, an investment in an associate or a joint venture is initially measured at the investor's share of the carrying amounts of the net assets of the investee. The difference between this amount and the consideration paid (excluding any transaction costs) is recognised directly in equity, and is subsequently adjusted to reflect the investor's share of the profit or loss and other comprehensive income of the investee, by applying the following principles:
- (a) *distributions and other adjustments to carrying amount.* Distributions received from the investee associate or joint venture reduce the carrying amount of the investment. Adjustments to the carrying amount might also be required as a consequence of changes in the investee's equity arising from items of other comprehensive income.
 - (b) *potential voting rights.* Although potential voting rights are considered in deciding whether significant influence or joint control exists, an investor shall measure its share of profit or loss and

other comprehensive income of the investee and its share of changes in the investee's equity on the basis of present ownership interests. Those measurements shall not reflect the possible exercise or conversion of potential voting rights.

- (c) *impairment*. If there is objective evidence that an investment in an investee is impaired, an investor shall record impairment in accordance with Section 10.
- (d) *investor's transactions with investees*. The investor shall eliminate unrealised profits and losses resulting from upstream (investee to investor) and downstream (investor to investee) transactions to the extent of the investor's ownership interest in the investee. Unrealised losses on such transactions might provide evidence of an impairment of the asset transferred.
- (e) *date of investee's financial statements*. In applying the equity method, the investor shall use the financial statements of the investee as of the same date as the financial statements of the investor unless doing so is impracticable. If it is impracticable, the investor shall use the most recent available financial statements of the investee, with adjustments made for the effects of any significant transactions or other events occurring between the reporting period ends. In any case, the difference between the date of the investor's and investee's financial statements shall not exceed three months, and both the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period.
- (f) *investee's accounting policies*. If the investee uses different accounting policies from those of the investor, the investor may adjust the investee's financial statements to reflect the investor's accounting policies for the purpose of applying the equity method unless doing so is impracticable.
- (g) *losses in excess of investment*. If an investor's share of losses of an investee equals or exceeds the carrying amount of its investment in the investee, the investor shall discontinue recording its share of further losses. After the investor's interest is reduced to zero, the investor shall record additional losses only to the extent that the investor either has incurred legal or constructive obligations and records a provision (see Section 19) or has made payments on behalf of the investee. If the investee subsequently reports profits, the investor shall resume recording its share of those profits only after its share of the profits equals the share of losses not recorded.

Accounting for interests in joint operations

13.23 In respect of its interests in joint operations, a joint operator shall record in its financial statements:

- (a) its assets, including its share of the jointly controlled assets, classified according to the nature of the assets;
- (b) its liabilities, including its share of any liabilities owed jointly with the other parties in relation to the joint arrangement;
- (c) any revenue from the sale or use of its share of the output of the joint arrangement, together with its share of any expenses incurred by the joint arrangement; and
- (d) any expenses it has incurred in respect of its interest in the joint arrangement.

Transactions between the entity and a joint arrangement

13.24 When an entity that is a joint venturer or joint operator contributes or sells assets to the joint arrangement, the record of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint arrangement, and provided the entity has lost control of the transferred assets, the entity shall record only the portion of the gain or loss attributable to the other investors' interests. The entity shall record the full amount of any loss when the contribution or sale provides evidence of an impairment loss.

13.25 When a joint venturer or joint operator purchases assets from a joint arrangement, that entity shall not record its share of the profits of the joint arrangement from the transaction until it resells the assets to an independent party. The entity shall record its share of the losses resulting from these transactions in the same way as profits, except that losses shall be recorded immediately if they represent an impairment loss.

If a party does not have joint control

13.26 An entity that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with Section 10 unless it has significant influence over the joint venture. Where an entity has significant influence over the joint venture, the entity shall account for it in accordance with this

section (as an investment in an associate) or Section 8 (together with other investments in notable relationship entities), whichever is applicable.

- 13.27 An entity that participates in, but does not have joint control of, a joint operation shall account for its interest in the arrangement in accordance with paragraph 13.23 if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If an entity that participates in, but does not have joint control of, a joint operation does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the sections applicable to that interest.

Disclosures

- 13.28 In addition to the disclosures specified by Section 27, an entity shall disclose the following:
- (a) accounting policy information for investments in associates and joint ventures;
 - (b) the total carrying amount of investments in associates;
 - (c) the total carrying amount of investments in joint ventures; and
 - (d) if the entity is an investor in one or more joint ventures, the aggregate amount of its commitments relating to those entities, including its share of the commitments incurred jointly with other parties.
- 13.29 An entity shall disclose the following information about each investment in associate and interest in joint venture accounted for using the cost model:
- (a) its name;
 - (b) a description of its relationship with the reporting entity;
 - (c) a description of its primary purpose and an indication of the nature of its operations;
 - (d) whether the entity prepares audited or reviewed financial statements; and
 - (e) for investments in associates only – the total amount of dividends and other distributions recorded as income for the period.
- 13.30 For investments in associates and joint ventures accounted for using the fair value model, an investor shall make the disclosures required by paragraphs 10.27 and 10.29.
- 13.31 An entity shall disclose separately for investments in associates, and interests in joint ventures, accounted for using the equity method:
- (a) its share of the profit or loss;
 - (b) its share of any discontinued operations; and
 - (c) the total fair value of its investments for which a quoted market price is available.

Section 14: Investment Property

Scope of this section

- 14.1 This section applies to investment property except when paragraph 1.5 or another section of this Standard requires or permits a different accounting treatment.
- 14.2 Investment property is property (land or a building, or part of a building, or both) held by the owner to earn rentals or for capital appreciation or both, instead of for:
- (a) use in the production or supply of goods or services or for administrative purposes ('owner-occupied property'); or
 - (b) sale in the ordinary course of operations.
- In relation to (a), a property's generation of incidental rental revenue does not preclude classifying that property as 'owner-occupied'.
- 14.3 The accounting for owner-occupied property is set out in Section 15. The accounting for property held for sale in the ordinary course of operations is addressed by Section 12. Mixed-use property shall be classified and accounted for as property, plant and equipment in accordance with Section 15.

Recording an investment property

- 14.4 An entity shall record an investment property as an asset from when it is purchased by, or donated to, the entity.

Initial measurement

- 14.5 An investment property shall initially be measured at its cost. However, if an investment property was donated to the entity, the entity may elect to initially measure the property either at:
- (a) its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount); or
 - (b) its fair value as at the date of donation, measured in accordance with Section 11. Any resulting increase in investment property is recorded as donation income (revenue) in accordance with Section 20.
- 14.6 The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs. An entity shall determine the cost of a self-constructed investment property in accordance with paragraphs 15.5 and 15.6.

Subsequent measurement

- 14.7 After initial recording, an entity shall apply either the cost model in Section 15 or the fair value model in paragraph 14.8 as its accounting policy and, subject to paragraph 14.9, shall apply that policy to an entire class of investment property. Where an entity initially measures a donated investment property at fair value, this amount shall be regarded as its cost for the purposes of applying the cost model.

Fair value model

- 14.8 Under the fair value model, investment properties are measured at fair value, in accordance with Section 11, as at each reporting date with changes in fair value recorded in profit or loss. An entity that changes its accounting policy from the cost model to the fair value model for a class of investment properties shall not subsequently revert to the cost model for that class.
- 14.9 When the fair value of a particular investment property cannot be measured reliably on a continuing basis, the entity shall measure that item using the cost model in Section 15 until disposal of the investment property. Applying the cost model to particular investment properties in the circumstances described in this paragraph is not a change in accounting policy.

Transfers to, or from, investment property

- 14.10 An entity shall transfer a property to, or from, investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.
- 14.11 When an entity uses the cost model, transfers between investment property, inventories and owner-occupied property do not change the cost or other carrying amount of the property transferred. For a transfer from investment property measured under the fair value model to inventories or owner-occupied property, the property's fair value at the date of change in use shall be regarded as its cost for the purposes of applying Section 15 or Section 12.

Ceasing to record an investment property

- 14.12 An entity shall cease recording an investment property when the property is:
- (a) sold or otherwise disposed of; or
 - (b) permanently withdrawn from use and no future economic benefits are expected from its disposal.
- 14.13 An entity shall determine the gain or loss arising from ceasing to record an investment property as the difference between the net disposal proceeds, if any, and the carrying amount of the property. An entity shall record the gain or loss in profit or loss in the reporting period in which the property ceases to be recorded as an asset.

Disclosures

- 14.14 An entity shall disclose the information specified by paragraphs 15.27 and 15.28 for investment properties measured under the cost model.
- 14.15 An entity shall disclose the following information for investment property measured under the fair value model:
- (a) the extent to which the fair value is based on a valuation by an independent valuer;
 - (b) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal;
 - (c) the amount of contractual commitments to purchase, construct or develop investment property; and
 - (d) net gains or losses from fair value adjustments.
- 14.16 Where, in accordance with paragraph 14.5(a), an entity initially measures at cost a donated investment property, it shall make the disclosures specified by paragraphs 15.30 and 15.31 for that investment property. However, for a donated investment property, it is unnecessary to comply with the requirement in paragraph 15.30(b)(i) to disclose the class of assets to which the donated asset relates.

Section 15: Property, Plant and Equipment

Scope of this section

- 15.1 This section applies to:
- (a) property, plant and equipment; and
 - (b) investment property the fair value of which cannot be measured reliably on a continuing basis and other investment property measured under the cost model;
- except when paragraph 1.5 or another section of this Standard requires or permits a different accounting treatment.
- 15.2 Property, plant and equipment are tangible assets that are:
- (a) held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
 - (b) expected to be used during more than one reporting period.

Recording an item of property, plant and equipment

- 15.3 An entity shall record an item of property, plant and equipment as an asset from when it is purchased by, or donated to, the entity.

Initial measurement

- 15.4 An item of property, plant and equipment shall initially be measured at its cost. However, if an item of property, plant and equipment was donated to the entity, that entity may elect to initially measure the item either at:
- (a) its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount); or
 - (b) its fair value as at the date of donation, measured in accordance with Section 11. Any resulting increase in property, plant and equipment is recorded as donation income(revenue) in accordance with Section 20.

Elements of cost

- 15.5 The cost of an item of property, plant and equipment comprises all of the following:
- (a) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management (eg initial delivery and handling and installation costs).; and
 - (c) the initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located (ie “make good” obligation).
- 15.6 The following costs are not costs of an item of property, plant and equipment and shall be recorded as an expense when they are incurred:
- (a) costs of opening a new facility;
 - (b) costs of introducing a new good or service (including costs of advertising and promotional activities) and costs of operating in a new location or with a new class of beneficiaries (including costs of staff training); and
 - (c) administration and other general overhead costs.
- 15.7 Notwithstanding paragraph 15.5, an entity may exclude from the costs of constructing an item of property, plant and equipment a systematic allocation of overhead costs incurred in the construction process and the depreciation of items of property, plant and equipment and intangible assets used in their construction. In this case, this election shall be applied consistently to all property, plant and equipment constructed by the entity.

Subsequent measurement

- 15.8 An entity shall choose either the cost model in paragraph 15.12 or the revaluation model in paragraph 15.13 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. Where an entity initially measures an item of donated property, plant and equipment at fair value, this amount shall be regarded as its cost for the purposes of applying the cost model.
- 15.9 A class of property, plant and equipment is a grouping of property, plant and equipment of a similar nature or function. Possible classes of property, plant and equipment are:
- (a) land;
 - (b) land and buildings;
 - (c) motor vehicles;
 - (d) furniture and fixtures;
 - (e) office equipment;
 - (f) computers; and
 - (g) machinery.
- 15.10 An entity that changes its accounting policy from the cost model to the revaluation model for a class of property, plant and equipment shall not subsequently revert to the cost model for that class.
- 15.11 An entity shall record the costs of day-to-day servicing of an item of property, plant and equipment in profit or loss in the reporting period in which the costs are incurred.

Cost model

- 15.12 An entity shall measure an item of property, plant and equipment after initial recording at cost less any accumulated depreciation and any accumulated impairment losses recorded in accordance with Section 22.

Revaluation model

- 15.13 An entity shall measure an item of property, plant and equipment after initial recording whose fair value can be measured reliably at a revalued amount, being its fair value as at the date of the revaluation less any subsequent accumulated depreciation. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Section 11 provides guidance on determining fair value.
- 15.14 When the fair value of an item within a class of revalued property, plant, and equipment cannot be measured reliably, the entity shall measure that item using the cost model until the item is once again reliably measurable. The item’s carrying amount when its fair value ceased being reliably measurable shall be regarded as its cost for the purpose of applying the cost model. Applying the cost model to an item of property, plant and equipment in the circumstances described in this paragraph is not a change in accounting policy.

Recording revaluation increases and decreases

- 15.15 If the carrying amount of a class of assets is increased as a result of a revaluation, the revaluation increase shall be recorded in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the revaluation increase shall be recorded in profit or loss to the extent that it reverses a revaluation decrease of the same class of assets previously recorded in profit or loss.
- 15.16 If the carrying amount of a class of assets decreased as a result of a revaluation, the revaluation decrease shall be recorded in profit or loss. However, the revaluation decrease shall be recorded in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that same class of assets. The revaluation decrease recorded in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

Depreciation

- 15.17 An entity shall allocate the depreciable amount of an asset on a systematic basis over its useful life. The depreciation charge for each period shall be recorded in profit or loss unless another section of this Standard requires or permits the cost to be recorded as part of the cost of an asset. For example, the depreciation of manufacturing property, plant and equipment might be included as part of the costs of conversion of inventories (see Section 12). Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
- 15.18 If the major components of an item of property, plant and equipment have significantly different useful lives or patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life. Other assets are depreciated over their useful lives as a single asset. Land is considered to have an unlimited useful life and is not depreciated.

Depreciable amount and depreciation period

- 15.19 An entity shall consider all the following factors in determining the useful life of an asset:
- (a) the expected usage of the asset, assessed by reference to the asset's expected capacity or physical output;
 - (b) expected physical wear and tear;
 - (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the external demand for the output (goods or services) of the asset; and
 - (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.
- 15.20 If an asset has been damaged physically or its capacity to provide services has been affected adversely as a result of either:
- (a) the entity having changed its strategy; or
 - (b) being affected by a reduction in external demand for its services,
- this may indicate that the residual value, useful life or pattern of consumption of the future economic benefits embodied in the asset has changed since the most recent annual reporting date. If such indicators are present, the entity shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The entity shall account for the change in residual value, depreciation method or useful life as a change in an accounting estimate in accordance with Section 9.
- 15.21 Depreciation of an asset ceases when the asset ceases to be recorded. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be nil while there is no production.

Depreciation method

- 15.22 An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. Possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method.
- 15.23 If there is an indication that there has been a significant change since the last annual reporting date in the pattern in which an entity expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the

new pattern. The entity shall account for the change as a change in an accounting estimate in accordance with Section 9.

Ceasing to record an item of property, plant and equipment

- 15.24 An entity shall cease recording an item of property, plant and equipment when:
- (a) it is sold or otherwise disposed of; or
 - (b) no future economic benefits are expected from its use or disposal.
- 15.25 For the purposes of paragraph 15.24(b), an entity needs to consider the possibility that no future economic benefits are expected from the use or disposal of an asset only when:
- (a) the asset has been damaged physically; or
 - (b) the entity has changed its strategy or been affected by a reduction in external demand for its services and in either case the asset's capacity to provide services might have been affected adversely as a result.
- 15.26 An entity shall determine the gain or loss arising from ceasing to record an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item. An entity shall record the gain or loss in profit or loss in the reporting period in which the item ceases to be recorded as an asset. The entity shall not classify such a gain as revenue.

Disclosures

- 15.27 An entity shall disclose the following for each class of property, plant and equipment, and for investment property measured under the cost model:
- (a) the measurement bases used;
 - (b) the carrying amount at the beginning and end of the reporting period;
 - (c) increases or decreases resulting from revaluations recorded in other comprehensive income under paragraphs 15.15 and 15.16;
 - (d) impairment losses recorded in profit or loss and the related line item(s) in the statement(s) of profit or loss and other comprehensive income; and
 - (e) depreciation.
- 15.28 An entity shall also disclose:
- (a) the existence and carrying amounts of property, plant and equipment to which the entity has restricted title or that is pledged as security for loans;
 - (b) the amount of contractual commitments for the acquisition of property, plant and equipment; and
 - (c) if the entity has investment property whose fair value cannot be measured reliably on a continuing basis, it shall disclose that fact and the reasons why fair value cannot be measured reliably for those items of investment property.
- 15.29 If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose:
- (a) the effective date of the revaluation; and
 - (b) whether an independent valuer was involved.
- 15.30 Where, in accordance with paragraph 15.4(a), an entity initially measures at cost a donated item of property, plant and equipment, it shall disclose, for each material item, information that helps users of financial statements to assess:
- (a) the entity's dependence on donations of property, plant and equipment; and
 - (b) the nature and terms of the donation arrangement, including:
 - (i) a description of the donated asset and the class of assets to which it relates;
 - (ii) any amounts owing to the donor at the reporting date; and
 - (iii) restrictions on the use of the donated asset imposed by the donor.
- 15.31 The disclosures in paragraph 15.30:
- (a) shall be aggregated for donated assets of a similar nature; and

- (b) need not be made in respect of any donated assets measured using the revaluation model.

An entity shall consider the level of detail necessary to enable those assessments by users of financial statements. The disclosures shall be aggregated or disaggregated so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items with substantially different characteristics.

Section 16: Intangible Assets

Scope of this section

- 16.1 This section applies to intangible assets, except when paragraph 1.5 or another section of this Standard requires or permits a different accounting treatment.
- 16.2 An intangible asset is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when it either:
- (a) is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
 - (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Recording an intangible asset

- 16.3 An entity shall record an intangible asset as an asset from when it is purchased by, or donated to, the entity.

Initial measurement

- 16.4 An intangible asset shall initially be measured at cost. However, if an intangible asset was donated to the entity, that entity may elect to initially measure the asset either at:
- (a) its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount); or
 - (b) its fair value as at the date of donation, measured in accordance with Section 11. Any resulting increase in intangible assets is recorded as donation income (revenue) in accordance with Section 20.

Elements of cost

- 16.5 The cost of an acquired intangible asset comprises:
- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
 - (b) any directly attributable cost of preparing the asset for its intended use.

Internally generated intangible assets

- 16.6 An entity shall record expenditure incurred internally on an intangible item, including all expenditure for both research and development activities, as an expense when it is incurred.
- 16.7 As examples of applying paragraph 16.6, an entity shall write off expenditure on the following items immediately as an expense and shall not record such expenditure as intangible assets:
- (a) internally generated brands, logos, publishing titles, customer lists and items similar in substance;
 - (b) start-up activities (ie start-up costs), which include establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility (ie pre-opening costs) and expenditure for starting new operations or launching new products or processes (ie pre-operating costs);
 - (c) training activities;
 - (d) advertising and promotional activities; and
 - (e) relocating or reorganising part or all of an entity.

- 16.8 Paragraph 16.7 does not preclude recording a prepayment as an asset when payment for goods or services has been made in advance of the delivery of the goods or the rendering of the services.

Past expenses not to be recorded (reinstated) as an asset

- 16.9 Expenditure on an intangible item recorded as an expense shall not subsequently be recorded as part of the cost of an asset.

Subsequent measurement

- 16.10 An entity shall choose either the cost model in paragraph 16.13 or the revaluation model in paragraphs 16.14 and 16.15 as its accounting policy and shall apply that policy to an entire class of intangible assets. Where an entity initially measures a donated intangible asset at fair value, this amount shall be regarded as its cost for the purpose of applying the cost model.
- 16.11 A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Notwithstanding paragraph 16.10, an entity shall apply the cost model to an intangible asset within a class of intangible assets measured under the revaluation model when the asset's fair value cannot be measured by reference to an active market for the asset.
- 16.12 An entity that changes its accounting policy from the cost model to the revaluation model for a class of intangible assets shall not subsequently revert to the cost model for those assets unless an active market for those assets no longer exists.

Cost model

- 16.13 An entity shall measure an intangible asset after initial recording at cost less any accumulated amortisation and any accumulated impairment losses recorded in accordance with Section 23).

Revaluation model

- 16.14 An entity shall measure an intangible asset whose fair value can be measured by reference to an active market at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value as at the reporting date. Section 11 provides guidance on determining fair value.
- 16.15 If an intangible asset in a class of revalued intangible assets is measured using the cost model because there is no active market for the asset, the carrying amount of that intangible asset when it ceases being traded in an active market shall be regarded as the asset's cost for the purposes of applying the cost model. Applying the cost model to an intangible asset in these circumstances is not a change in accounting policy.

Recording revaluation increases and decreases

- 16.16 If the carrying amount of a class of intangible assets is increased or decreased as a result of a revaluation, the revaluation increase or decrease shall be recorded in the same manner as revaluation increases and decreases for classes of property, plant and equipment, as specified in paragraphs 15.15 and 15.16.

Amortisation

- 16.17 An entity shall allocate the depreciable amount of an intangible asset on a systematic basis over its useful life. The amortisation charge for each period shall be recorded in profit or loss, unless the entity elects, in accordance with Section 12 or Section 15, to include an appropriate portion of that charge in the cost of assets. Amortisation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be usable in the manner intended by management.

Amortisation amount and amortisation period

- 16.18 All intangible assets shall be accounted for as if they have a finite useful life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter, depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity.

without significant cost. If the useful life of an intangible asset is indefinite, it shall be determined based on management's best estimate but shall not exceed ten years.

- 16.19 An entity shall assume that the residual value of an intangible asset is zero unless:
- (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
 - (b) there is an active market for the asset and:
 - (i) residual value can be determined by reference to that market; and
 - (ii) it is probable that such a market will exist at the end of the asset's useful life.
- 16.20 If an intangible asset's capacity to provide services has been affected adversely as a result of either:
- (a) the entity having changed its strategy; or
 - (b) being affected by a reduction in external demand for its services,
- this might indicate that the residual value, useful life, or pattern of consumption of the future economic benefits embodied in the intangible asset has changed since the most recent annual reporting date. If such indicators are present, the entity shall review its previous estimates and, if current expectations differ, amend the useful life, amortisation method or residual value. The entity shall account for the change in useful life, amortisation method or residual value as a change in accounting estimate in accordance with Section 9.
- 16.21 Amortisation of an asset ceases when the asset ceases to be recorded. Amortisation does not cease when the asset becomes idle or is retired from active use unless the asset is fully amortised.

Amortisation method

- 16.22 An entity shall select an amortisation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If the entity cannot determine a more reliable pattern, it shall use the straight-line method.

Ceasing to record an intangible asset

- 16.23 An entity shall cease recording an intangible asset, when:
- (a) it is sold or otherwise disposed of; or
 - (b) no future economic benefits are expected from its use or disposal.
- 16.24 For the purposes of paragraph 16.23(b), an entity needs to consider the possibility that no future economic benefits are expected from the use or disposal of an asset only when the entity has changed its strategy or been affected by a reduction in external demand for its services and in either case the asset's capacity to provide services might have been affected adversely as a result.
- 16.25 An entity shall determine the gain or loss arising from ceasing to record an item of intangible asset as the difference between the net disposal proceeds, if any, and the carrying amount of the item. An entity shall record the gain or loss in profit or loss in the reporting period in which the item ceases to be recorded as an asset. The entity shall not classify such a gain as revenue.

Disclosures

- 16.26 An entity shall disclose the following for each class of intangible assets:
- (a) the measurement basis used;
 - (b) the carrying amount as at the beginning and end of the reporting period;
 - (c) increases or decreases resulting from revaluations recorded in other comprehensive income under paragraphs 16.14 and 16.15;
 - (d) impairment losses recorded in profit or loss and the related line item(s) in the statement(s) of profit or loss and other comprehensive income; and
 - (e) amortisation.
- 16.27 An entity shall also disclose:
- (a) the existence and carrying amounts of intangible assets to which the entity has restricted title or that are pledged as security for loans; and
 - (b) the amount of contractual commitments for the acquisition of intangible assets.

- 16.28 An entity shall disclose the aggregate amount of research and development expenditure recorded as an expense during the period.
- 16.29 If intangible assets are stated at revalued amounts, an entity shall disclose the effective date of the revaluation.
- 16.30 Where, in accordance with paragraph 16.4(a), an entity initially measures at cost a donated intangible asset, it shall make the disclosures specified by paragraphs 15.30–15.31 for that intangible asset.

Section 17: Entity Combinations

Scope of this section

- 17.1 This section provides the requirements for the recording, initial measurement and disclosure of combinations of the entity (the ‘acquirer’) with other entities or operating units (the ‘acquiree’) for which either:
- (a) consolidated financial statements are prepared for the post-combination consolidated entity in accordance with paragraphs 8.18–8.28; or
 - (b) only one entity exists after the combination and, consequently, the only items (assets, liabilities and items of equity) transferred to the acquirer are its direct interests and direct obligations.
- An entity combination combines separate entities or operating units into a larger reporting entity.
- 17.2 This section does not apply to combinations between an acquirer and another entity when, in accordance with paragraph 8.3, the entity has elected to collectively classify its subsidiaries, investments in associates and interests in joint arrangements involving a separate vehicle as investments in notable relationship entities. Those requirements do not require the presentation of consolidated financial statements.
- 17.3 An entity shall determine whether a transaction or another event is an entity combination by applying paragraphs 17.1 and 17.4, which require that the assets received and liabilities assumed constitute an entity or another operating unit. If an entity receives assets and the transaction or other event does not involve an entity combination, the entity shall account for the transaction or other event as an acquisition of one or more assets and, where applicable, the assumption of one or more liabilities.
- 17.4 An operating unit is an integrated set of activities and related assets capable of being conducted and managed for the purpose of achieving an entity’s objectives, by producing goods or services and/or generating income. It consists of assets capable of producing goods or services or generating income and operating processes applied to those assets to pursue that objective.

Recording and measurement principles

- 17.5 Subject to paragraphs 17.6–17.8, on the date an entity (the acquirer) gains control of another entity or operating unit (the acquiree), the carrying amounts of the assets, liabilities and items of equity of the acquiree on that date become the carrying amounts of those assets, liabilities and items of equity in the larger reporting entity. Where the date of gaining control is not observable, the entity shall use an estimated date. The estimated date selected shall not be one that causes the financial position of the entity to vary significantly when considered against the range of other possible dates.
- 17.6 In applying paragraph 17.5, if a major asset or liability of the acquiree subject to the combination had not been recorded in accordance with Australian Accounting Standards, it shall initially be measured at its fair value as at the combination date.
- 17.7 The requirement in paragraph 17.6 does not apply to:
- (a) non-financial assets that the acquiree had obtained in exchange for nil consideration;
 - (b) non-financial assets that the acquiree had obtained in exchange for nominal consideration, or another significantly discounted amount, and that are measured at cost or using a cost model before the combination date. On the combination date, the acquirer shall determine the carrying amounts of these assets as though this Standard had always been applied; and
 - (c) internally generated intangible assets of the acquiree.
- 17.8 If the combining entities applied different accounting policies to record or measure assets or liabilities in their financial statements immediately before the entity combination, the balances of the acquiree’s assets or liabilities shall be adjusted as at the date of the combination to achieve uniformity of accounting policies across the combining entities.

- 17.9 Any difference between the carrying amount of the consideration paid by the acquirer in an entity combination and the carrying amount of the net assets acquired in the combination is recorded directly in equity. An entity combination does not give rise to the recording of goodwill.
- 17.10 Transaction costs incurred as a result of the entity combination shall be recorded as an expense when incurred.
- 17.11 After the initial recording of an entity combination, the entity shall measure and account for the combined assets, liabilities and items of equity in accordance with the sections of this Standard applicable to those items consistently with the reporting entity's accounting policies.

Disclosure

- 17.12 An entity shall disclose for each entity combination occurring during the reporting period:
- (a) the names of the combining entities or operating units and a description of their operations; and
 - (b) the total amounts recorded on the combination date for each class of the acquired assets and liabilities.
- When required by paragraph 7.8, an entity shall also disclose the key judgements the management has made about the date the entity gained control of another entity or operating unit.
- 17.13 If an entity is a party to a major entity combination after the end of the reporting period but before the financial statements are authorised for issue by the entity's management, it shall disclose:
- (a) the names of the acquired entities and a description of their operations; and
 - (b) the combination date.

Section 18: Leases

Scope of this section

- 18.1 This section applies to leases, except that the measurement of leased land and buildings that are investment property is specified by Section 14. All other requirements, including disclosures, in this section apply to the lessees and lessors of such leased property.

Financial statements of lessees

Recording and measurement

- 18.2 A lessee shall record lease payments (including costs for services such as insurance and maintenance) as an expense over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern of the lessee's benefit from the leased asset (in which case that other systematic basis shall be used), even if the payments are not on that basis.
- 18.3 The lease payments recorded as an expense over the lease term shall include any initial direct costs of the lessee incurred in negotiating and arranging a lease and the benefit of any lease incentive receivable (eg a rental holiday period), such that those costs and incentives are recorded over the term of the lease on the same basis as other lease payments.

Financial statements of lessors

Recording and measurement

- 18.4 A lessor shall present leased assets in its statement of financial position together with other assets of a similar nature and apply the recording and measurement requirements of the section of this Standard relevant to that asset.
- 18.5 A lessor shall record lease payments as income (excluding costs for services such as insurance and maintenance) in profit or loss over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern of the lessee's benefit from the leased asset (in which case that other systematic basis shall be used).
- 18.6 A lessor shall record as an expense costs, including depreciation, incurred in earning the lease income.

- 18.7 A lessor shall add to the carrying amount of the leased asset any initial direct costs it incurs in negotiating and arranging a lease and shall record such costs as an expense over the lease term on the same basis as the lease income. The time pattern of income and expense recording does not depend on the time pattern of lease payments.

Disclosures for lessees and lessors

- 18.8 A lessee or lessor shall disclose the following for leases:
- (a) a description of the underlying leased assets;
 - (b) the future minimum lease payments under non-cancellable leases for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years; and
 - (c) a general description of the entity's significant leasing arrangements, including, for example, information about variable lease payments, renewal or purchase options and escalation clauses, subleases (if a lessee) and restrictions imposed by lease arrangements.
 - (d) total lease expense and total lease income for the period.
- 18.9 An entity may be a lessee in a lease arrangement that has significantly below-market terms and conditions (eg the rental payment is for a nil or nominal amount) principally to enable the lessee to further its not-for-profit objectives. The entity shall disclose, for each such material lease, information that helps users of financial statements to assess:
- (a) the lessee's dependence on the donated asset; and
 - (b) the nature and terms of the lease, including:
 - (i) the lease payments;
 - (ii) the lease term; and
 - (iii) any amounts owing to the lessor (donor) at the reporting date.
- The entity shall consider the level of detail necessary to enable those assessments by users of financial statements. The disclosures shall be aggregated or disaggregated so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items with substantially different characteristics.
- 18.10 A lessor shall disclose the information specified by Section 14, Section 15, Section 16 and Section 23 for assets provided under leases, as relevant.

Section 19: Provisions and Contingencies

Scope of this section

- 19.1 This section applies to provisions, contingent liabilities and contingent assets, except for those addressed by paragraph 1.5 or another section of this Standard. These include:
- (a) financial instruments (including financial guarantee contracts) (see Section 10);
 - (b) leases (see Section 18);
 - (c) employee benefit obligations (see Section 24); and
 - (d) income tax (see Section 25).
- 19.2 The word 'provisions' is sometimes used in the context of such items as depreciation and impairment of assets (eg uncollectable receivables). Those are adjustments of the carrying amounts of assets, instead of the recording of liabilities, and therefore are not covered by this section.

Provisions

- 19.3 A provision is a liability of uncertain timing or amount. For example, an entity's lease of office premises may contain conditions that require the premises to be renovated at the end of the lease, so a provision for this is recorded.

Recording provisions

- 19.4 A provision shall be recorded as a liability when:
- (a) the entity has a present obligation (legal or constructive) as a result of a past event;
 - (b) it is probable that the entity will need to transfer assets to another party in settling the obligation; and
 - (c) the entity can make a reliable estimate of the amount of the obligation.
- 19.5 Only obligations arising from past events and that the entity has no realistic alternative to avoid settling are present obligations. Present obligations exist independently of the entity's future actions (ie they must be settled in one manner or another, regardless of choices the entity makes about how it operates in the future).
- 19.6 A constructive obligation is an obligation that derives from an entity's actions, where:
- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
 - (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
- An example of a constructive obligation is a non-legally binding obligation to remediate an operating site to its original condition. For example, an entity would have a constructive obligation to restore a disturbed operating site if the entity has made a public announcement that, consistent with its past practice, it will remediate that site, and other parties expect the entity to act in a manner consistent with its public announcement.
- 19.7 The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other liabilities. Except in extremely rare cases, an entity should be able to make a reliable estimate of the amount of the obligation and therefore record a provision. Where a reliable estimate of the amount of a provision cannot be made, the liability is not recorded, and instead is disclosed as a contingent liability (see paragraphs 19.13 – 19.15).

Possible future liabilities

- 19.8 The only liabilities recorded in an entity's statement of financial position are obligations existing at the end of the reporting period as a result of a past event. Therefore, a provision shall not be recorded for liabilities that might result from a future event, because these liabilities do not yet exist. For example, costs likely to be incurred in the future to continue an entity's activities in the future are not liabilities. Similarly, provisions shall not be recorded for expected future operating losses.
- 19.9 Firm commitments are binding agreements for the exchange of a specified quantity of assets at a specified price on a specified future date or dates. They are not recorded as liabilities because the counterparty has yet to perform its promises under the binding agreement or satisfy other eligibility criteria, which is necessary for a present obligation of the entity to arise. Information about an entity's firm commitments to purchase goods, services or other assets is useful for users. An entity shall disclose the information about commitments specified in other sections of this Standard.

Measurement of provisions

- 19.10 Provisions shall be measured at the entity's best estimate of the undiscounted amount to be paid, taking into account current information about conditions existing at the end of the reporting period. For example, where an entity expects to settle an obligation to clean up a site where it held a fundraising event, by engaging a contractor to perform this work, the entity would take into account current contractor rates and the estimated effort to complete the work based on the site conditions at the reporting date in estimating the amount required to settle the obligation.

Reimbursements

- 19.11 When some or all of the amount required to settle a provision might be reimbursed by another party (for example, through an insurance claim), the entity shall record any right to reimbursement as an asset, separately from the provision, only when it is virtually certain that the entity will receive the reimbursement if it settles the provision. The amount recorded for the reimbursement shall not exceed the amount recorded for the provision. In the statement(s) of profit or loss and other comprehensive income, the entity may offset any reimbursement income against the expense relating to the provision.

Disclosure of provisions

19.12 For each class of provision, an entity shall disclose:

- (a) a brief description of the nature of the obligations;
- (b) the expected amount at which the provision is recorded, separated into current and non-current portions;
- (c) an indication of the uncertainties about the amount of the future payments required to settle the obligations;
- (d) if significant uncertainty exists about the classification of the provision into its current and non-current portions, the existence of that uncertainty and reason(s) why; and
- (e) the amount of any expected reimbursement, stating the amount of any asset recorded for that expected reimbursement.

Comparative information for prior periods is not required.

Contingent liabilities

19.13 A contingent liability is:

- (a) a possible obligation, the existence of which will be confirmed only by the occurrence or non-occurrence of an uncertain future event not wholly within the entity's control; or
- (b) a present obligation that arises from past events but is not recorded because:
 - (i) it is not probable that a transfer of assets will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured reliably.

19.14 Examples of a contingent liability are, in relation to court cases in progress, a possible obligation where the entity disputes an unproven claim against it, or a present obligation where the entity does not dispute a claim against it but the amount of the compensation to be determined by the court cannot be measured reliably. Contingent liabilities shall not be recorded in the statement of financial position, but information about them shall be disclosed in the notes (see paragraph 19.15).

Disclosure of contingent liabilities

19.15 Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability, a brief description of the nature of the contingent liability and, when practicable:

- (a) an estimate of the amount of the contingent liability;
- (b) an indication of the uncertainties about the amount or timing of any outflow of assets; and
- (c) the possibility of any reimbursement.

If it is impracticable to make one or more of the disclosures in paragraphs (a) – (c), that fact shall be stated.

Contingent assets

19.16 A contingent asset is a possible asset (eg a claim that is being disputed by the other party) that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity's control. Contingent assets shall not be recorded in the statement of financial position, but information about them shall be disclosed in the notes (see paragraph 19.17). However, when it is virtually certain that economic benefits will flow to the entity (eg when an amount becomes receivable as a result of a favourable judgement), then the related asset is not a contingent asset and should be recorded as an asset in the statement of financial position.

Disclosures

19.17 If an inflow of economic benefits from a contingent asset is probable at the end of the reporting period, an entity shall disclose in the notes a brief description of the nature of the contingent asset and, when practicable, an estimate of the amount of the contingent asset. If it is impracticable to disclose an estimate of the amount of the contingent asset, that fact shall be stated.

Prejudicial disclosures

- 19.18 In extremely rare cases, disclosures of some or all of the information required by paragraphs 19.12, 19.15 and 19.17 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

Question 1 to Board members

Upon staff's re-examination of the requirements for Section 20 of ED 335 and the accompanying Illustrative Examples, the guidance varied within the section in relation to when an entity would satisfy the deferred revenue obligation. Paragraph 20.8 of ED 335 stated that revenue is recorded in the manner that most faithfully represents the amount and pattern of the entity's using up of the asset received (or other assets with a similar value). Examples include when eligible expenditure is incurred or when activities are performed. In contrast, paragraph 20.11 of ED 335 (now deleted) specifies that the entity shall subsequently reduce the liability, and simultaneously record revenue for the same amount, as the deferred revenue obligation is satisfied by the entity.

Similarly, paragraph 20.23 of ED 335 provided examples that differed in revenue recognition. For instance, for hosting an event or delivering a specific programme or activity, revenue could be recognised on a stage of completion basis as the costs to host the event or deliver the specified programme or activity are incurred. However, another example outlined that revenue should be recognised when specified goods or services are delivered to beneficiaries. Staff noted these approaches would appear to provide mixed messages regarding whether the revenue recognition model prioritises the timing of fund spend or of satisfying the obligation (which in some cases, could be to spend funds, as illustrated in Illustrative Example H). This could lead to different outcomes. For example, in the case of hosting a gala event, recognising revenue as expenses are incurred prior to the event (and the received funds used up) would result in earlier recognition than if revenue were recognised only when the event occurs. While more judgment is required and could potentially be more onerous than a timing-of-funds-used approach, staff consider a more faithful representation is achieved by recognising revenue when the commitment under the transaction is satisfied, rather than when the assets received (or other assets with a similar value) are used up. This approach also aligns with the New Zealand Tier 3 Standard with which the drafting of the Tier 3 requirements was based, which specifies, per paragraph A74 "...As or when the documented expectations are satisfied by the reporting entity, the deferred revenue balance is reduced, and revenue is recorded.". As such, staff recommend and have clarified that the timing of revenue recognition is not based on the timing of consumption of the assets received, but of satisfying the commitment made. The proposed amendments include amending paragraph 20.5 to reflect that the using up transferred assets may occur at a different time from satisfying the commitment relevant to the transaction.

**Do Board members agree with the staff recommendation to clarify that the timing of revenue recognition is not necessarily based on the timing of use of the funds in delivering the agreed performance?
If not, what do Board members suggest?**

Question 2 to Board members

On re-examination of the requirements, staff note that paragraph 20.26 requires deferred revenue obligations to be classified into its current and non-current portions. Paragraph 3.6 requires liabilities to be classified as current when they are "due to be settled" within twelve months after the reporting date. Since entities generally control the timing of when commitments are satisfied, staff think that this may result in many deferred revenue obligations being classified as non-current even when the entity expects to perform the obligation within twelve months.

Staff consider that this outcome would not reflect fairly the financial position of the entity, particularly where obligations are expected to be satisfied within twelve months. To address this inadvertent outcome, staff propose adding paragraph 20.27 to modify the current/non-current classification criteria. It requires an entity to classify a deferred revenue obligation (or part thereof) as current if it expects, consistent with paragraph 20.5, the liability to be reduced and revenue recognised within twelve months after the reporting date. All other deferred revenue obligations are classified as non-current. Staff think that this clarification provides more relevant information to users about the timing of future revenue recognition.

Do Board members agree with the addition of paragraph 20.27 that an entity classifies a deferred revenue obligation (or part thereof) as current if it expects the liability to be reduced and revenue recorded within twelve months after the reporting date?
If not, what would Board members suggest?

DRAFT

Notes to Board members

Staff have made amendments to reflect the 7 October 2025 AASB meeting decision to revise the following aspects of Section 20 of ED 335:

- Amending paragraph 20.1 to clarify that sales of assets are not revenue when they arise outside the course of the entity's ordinary activities, by deleting the text in paragraph 20.1(a) of ED 335 that referred to inflows of assets without limiting them to the entity's ordinary activities;
- Amending para. 20.4(a) and deleting 20.5 of ED 335 to simply require debtors to be measured initially at their transaction price;
- Paragraph 20.13 was amended to include brief guidance that internal expectations communicated by an entity's management regarding the use of a received asset are, on their own, insufficient to give rise to a deferred revenue obligation if those expectations are formed and communicated after the asset has been received.
- Adding to paragraph 20.18 a statement that contingent assets disclosures are required for pledges that are probable to result in an inflow of economic benefits;
- Adding to Illustrative Examples E, F and H (which relate to a fundraising gala event and specific-purpose grants applied for by the reporting entity) a clarification that a 'common understanding' exists regardless of whether the reporting entity has an enforceable obligation to provide promised goods/services; and
- Illustrative Example I was added, which illustrates a charity that seeks donations for a specific appeal but also indicates that if greater funds are raised than needed for the intended purpose, the excess funds will be redirected to an alternative specific charitable purpose. Example I illustrates that a common understanding is established between the charity and its donors even though the donated funds may be redirected to another specific appeal.

In addition, staff have made amendments to address stakeholder comments to reduce verbosity and improve the readability of the Section and clarity of the requirements, and to make technical and editorial corrections or improvements following further staff consideration of the exposure draft. The more significant amendments to Section 20 are:

- Restructuring para. 20.1 for a more logical flow. In addition, para. 20.1 was amended to no longer specifically refer, in relation to transfers of goods or rendering of services, to just inflows of debtors in former subparagraph (c). Furthermore, paragraph 20.1 was amended to explicitly exclude inflows from entity combinations and asset purchases (which would otherwise be treated as revenue by default);
- Amending paragraph 20.3(a) to replace 'provider' with 'transferor' because 'provider' may connote a service or financial benefit being actively offered or granted, which might inadvertently suggest a lending relationship. In contrast, 'transferor' is a more neutral and precise term that simply denotes the party transferring an asset without implying the nature of the transaction or any underlying financial support;
- Paragraph 20.3(a)(ii) was amended to replace, in relation to other assets of the entity, 'with a similar value' with 'of a commensurate value to the transferor (eg inventory)'. This is to acknowledge that significantly different value might be exchanged between the transferor and the entity, e.g., where inventories are sold by the entity for a profit;
- ED 335 uses the term commonly understood obligation when referring to the promises or commitments (in a non-financial sense) to perform in a particular manner in exchange for the transferred assets. However, staff consider that continuing to refer to a commonly understood "obligation" may create confusion with the concept of deferred revenue obligation, which represents a liability in the financial statements. It may also create ambiguity whether the guidance refers to the liability itself or the underlying performance expectation. To improve clarity, references to the commonly understood "obligation" were replaced with "commitment" consistently throughout the guidance (e.g. see paragraph 20.6);
- Paragraph 20.11 of ED 335 was deleted and its guidance on methods an entity may use to determine the extent to which a deferred revenue obligation has been satisfied was relocated to paragraph 20.8 (and redrafted to reduce verbosity) to keep the guidance about deferred revenue obligations under the heading 'Deferred Revenue Obligations';
- The first sentence of paragraph 20.6 and paragraph 20.9 have been added, based on paragraph 20.23 of ED 335 (now deleted), because staff consider that: (a) referring to the 'unit of account' for deferred revenue obligations seems unnecessarily complex for Tier 3 entities; and (b) the guidance about not requiring identification of a separately commonly understood obligation should sit within the subsection headed 'Deferred Revenue Obligations';
- Paragraph 20.12 has been amended to include a practical expedient whereby revenue is recognised immediately for donations received that do not specify a time period and are intended to support an entity's operations. The Board's intention is that these types of donations should be recognised as revenue immediately upon receipt. In addition, it will not usually be possible to identify when those particular transferred assets have been used up by the entity, and makes it difficult to track the using up of those funds. To avoid misinterpretation that such donations qualify for deferral because a common understanding is arguably still established between the transferor and the entity on how the funds should be used, the practical expedient explicitly confirms immediate recognition;

- Paragraph 20.18 of ED 335 was relocated to paragraph 20.4(a) to present this guidance together with other requirements for debtor measurement;
- Paragraphs 20.19-20 regarding volunteer services were amended to delete the accounting for volunteer services that are contributions by owners, as contributions by owners are outside the scope of Section 20. In those instances, an entity would develop an accounting policy by reference to the hierarchy approach in Section 9;
- Paragraph 20.22 of ED 335 regarding reliable measurement of volunteer services was incorporated into paragraph 20.19 (and edited for brevity) to respond to a stakeholder's comment that it appears to be a stand-alone point that undermines the accounting policy choice stated in paragraph 20.19;
- Paragraph 20.24 of ED 335 was removed as the guidance duplicates the examples in paragraph 20.8 of when a commonly understood obligation is satisfied and revenue recorded;
- Amending paragraph 20.25 of ED 335 (now paragraph 20.21) that disaggregation of revenue into categories that helps users of financial statements assess the nature and uncertainty of those revenues rather than requiring the categories to be disclosed as a minimum. This change is similar to requirements in AASB 1060 paragraph 229, which requires disaggregation of income into categories that reflect how the nature and amount of income are affected by economic factors. The categories of revenue have been amended to avoid overlaps; and
- Deleting paragraph 20.28(c) of ED 335 (now paragraph 20.24), regarding disclosure of other information about volunteer services necessary to achieve the disclosure objective for revenue, because paragraph 20.25 states in practical terms how to meet the requirement in former paragraph 20.28(c). The references in paragraph 20.25 to the disclosure objective were deleted.

'Common understanding' and 'shared understanding'

The expression 'common understanding' was mooted by the Board during its 18 May 2022 meeting as part of its decision-making on the proposals in Section 20, in response to a concern that the staff's initial proposed term 'explicit stipulation' was complex and therefore, the Board suggested using 'common understanding' instead. There was no particular reason the expression was selected over 'shared understanding' or 'mutual understanding'. That is, staff think 'common understanding' was intended to be given its plain English meaning. At the 7 October 2025 AASB meeting, a Board member asked whether the concept of a shared understanding between the entity and the counterparty regarding the terms and conditions of a share-based payment in AASB 2 *Share-based Payment* would have the same meaning as the concept of a common understanding proposed in Section 20. The Board member observed that this is important to understand, as accounting advisors might look to AASB 2 to provide relevant guidance in instances where the guidance in the Tier 3 Standard is not sufficient.

Staff conducted further analysis and noted the following:

Focus of the related requirements

In AASB 2 the expression 'shared understanding' is important for establishing the measurement date of an arrangement, and this date is often when expense recognition occurs or begins. Contrastingly, in the draft Tier 3 Standard 'common understanding' is relevant for establishing whether revenue deferral is possible on the transaction date.

That is, the context in which the expressions are used is different: when a condition is present (AASB 2) vs whether a condition is present (Tier 3).

Timing of assets received by the reporting entity in the transaction

Proposed paragraph 20.3 states "On initial recording of cash or another asset transferred to the entity ...". Contrastingly, AASB 2.IG4 states "... grant date might occur after the employees to whom the equity instruments were granted have begun rendering services..."

Under AASB 2, assets (services, cash, other assets) need not be received before the time the parties have a shared understanding of the terms of an agreement. In contrast, assets will always have been received by the reporting entity at the time the parties have a common understanding of what the reporting entity will do in exchange.

Adjusting event vs non-adjusting event

AASB 2.IG4 requires an entity to adjust prior expense estimates for a later valuation that reflects conditions as of the point in time a shared understanding is reached. Contrastingly, the draft Tier 3 Standard does not explicitly address whether an entity could revise its previous accounting or recognise a 'catch up' on a later establishment of a common understanding between the parties to a transaction.

Staff think that the Board's Tier 3 revenue recognition decisions to date regard an entity's ability to defer revenue as a point-in-time judgement, similar to making a Day 1 election. Consequently, staff think that a common understanding of how the reporting entity will perform established subsequent to the initial recognition of a transaction should be treated prospectively, as a substantive modification of the original transaction, and as though the old transaction is

cancelled and replaced. However, some practitioners might argue that the AASB 2 treatment should apply by analogy, and require instead a ‘catch up’ of revenue and deferred revenue obligation from the original transaction date.

Differently directional

A common understanding is used in the draft Tier 3 Standard to refer to what the entity will do in exchange for the transferred assets. The context is one-directional, focusing only on the reporting entity’s performance. In contrast, a shared understanding is used in AASB 2 in relation to the terms and conditions of the arrangement. The context is that both parties have commitments under the arrangement.

Extent of Specificity/Precision required for an understanding to be present

ED 335.BC104 notes the Board’s intention that a common understanding that an entity will perform in a particular manner will not require any of the following features to be present:

- (i) a documented explicit stipulation;
- (ii) an enforceable right accorded to the transferor regarding the exchange; or
- (iii) a mandated threshold of specificity regarding how the transferred resources are to be used.

In contrast, AASB 2.IG1 states that “If that agreement is subject to an approval process ... [the date on which the parties have a shared understanding of the terms and conditions] is the date when that approval is obtained” and AASB 2.IG3 notes that “...if some of the terms and conditions of the arrangement are agreed on one date, with the remainder of the terms and conditions agreed on a later date, then [the date on which the parties have a shared understanding of the terms and conditions] is on that later date, when all of the terms and conditions have been agreed.” These IG paragraphs indicate that parties cannot be said to have a shared understanding of terms and conditions while there is still ambiguity about the agreed terms and whether the transferor has an enforceable right against the reporting entity.

That is, it appears that parties can reach a “common understanding” before a “shared understanding”.

Conclusion

Noting that the context of use is different and that there could potentially be a difference in the time agreement is reached, staff think there is merit for a Tier 3 Standard to use a different expression to AASB 2, to signal that the conclusions might be different. Consequently, staff retained use of the expression ‘common understanding’ in draft Section 20 of the Tier 3 Standard.

If the Board prefers to keep the expressions consistent, staff think the Board could employ the expression ‘shared understanding’ as this is similarly given its plain English meaning. In this case, staff think the Standard should clearly indicate that its interpretation is limited to the Tier 3 Standard.

Section 20: Revenue

Scope of this section

- 20.1 This section applies to the accounting for revenue arising from a transaction that is not addressed by paragraph 1.5 or another section of this Standard. Revenue is income arising in the course of an entity’s ordinary activities. Revenue arises from recorded inflows of cash and other assets to the entity, except for inflows from borrowings, sales of assets that are not inventory, asset purchases, entity combinations and contributions of capital from owners.
- 20.2 Examples of revenue are donations, grants, members’ fees, other forms of funding and sales consideration earned through the transfer of goods or services to customers (including customers at fundraising events).

Recording and measurement

- 20.3 An entity shall, on initial recording of cash or another asset transferred to the entity in a transaction with a grantor, donor, customer, or similar other transferor:
 - (a) record a deferred revenue obligation (liability), if the entity and the transferor have a common understanding that in response the entity will perform in a particular manner resulting in the related transfer or using up of:
 - (i) that asset; or
 - (ii) other assets of the entity of commensurate value to the transferor (eg inventory); or

- (b) otherwise, record revenue simultaneously with recording the asset.
- 20.4 On initial recording, the liability in paragraph 20.3(a) and the revenue in paragraph 20.3(b) shall be measured at the same amount as the asset, being:
 - (a) for debtors – at the transaction price, in accordance with paragraph 10.9. That amount excludes amounts collectible on behalf of third parties (eg goods and services tax); and
 - (b) for all other assets – at cost, fair value or other amount, as required by the applicable section of this Standard.
- 20.5 An entity shall reduce the carrying amount of a deferred revenue obligation and record revenue in profit or loss in the manner that faithfully represents the amount and pattern of the entity's satisfaction of the commitments relevant to the transaction. An entity applies judgement to determine when it satisfies its commitments relating to the transferred assets. This may be different to the timing of using up of the transferred assets.

Deferred revenue obligations

- 20.6 Each commitment to perform in a particular manner must be considered separately. It is unnecessary for the commitment to be enforceable (by legal or other means) against the entity before a deferred revenue obligation can be recorded.
- 20.7 Examples of an entity's performance in a particular manner resulting in the transfer or using up of either the asset received, or other assets are:
 - (a) transferring specified goods or rendering specified services to the transferor or its designated third party beneficiaries;
 - (b) acquiring or constructing an asset under the terms of a capital grant;
 - (c) incurring eligible expenditure; and
 - (d) using the asset(s) as directed for the specified period.
- 20.8 Examples of when a commitment is satisfied and revenue recorded are:
 - (a) when, or as, the specified goods and services are transferred;
 - (b) when, or as, the specified activities are performed;
 - (c) when eligible expenditure is incurred; and
 - (d) as time elapses over the specified period.

Methods for determining the extent to which a commitment is satisfied and revenue is recorded include by reference to the stage of completion or incurred proportion of the total quantity, cost or value of the goods or services to be transferred or used up in exchange, or on a time basis.
- 20.9 There might be multiple documented commitments attached to an inflow of assets. If all the commitments relating an inflow of assets are fully satisfied in the reporting period, there is no need to identify each separate commitment in the transaction as the entire amount received will be recorded as revenue of the reporting period.

Evidence of a common understanding

- 20.10 A common understanding between the entity and the transferor that the entity will perform in a particular manner may be evidenced by written communication or oral representations, between the entity and the transferor of the asset, regarding:
 - (a) the purpose for which the transferred asset, or other assets of the entity, is to be transferred or used up; or
 - (b) the period over which the transferred asset is to be used.

If an entity's performance in a particular manner is enforceable against it, evidence of the aspects in (a) or (b) would normally exist. However, enforceability is not the only way a common understanding that the entity will perform in a particular manner can be evidenced.
- 20.11 Examples of evidence that parties to a transaction have a common understanding of how the entity will perform in response to receiving the transferred assets are:
 - (a) in sales of goods or services – the tax invoice;

- (b) where an application for funding sets out how or when the entity expects to use the funds – approval of the application by the funding provider; and
 - (c) communicated public statements of the entity regarding how the entity would use assets provided to it and that creates, for the transferors, a valid expectation that the entity will use any transferred assets in the promised manner.
- 20.12 In some cases, assets may be transferred to an entity in expectation that the assets received will be used to support the entity's operations over an unspecified period of time. In these cases, the parties to the transaction share a common understanding as to how the entity will perform in exchange for the transferred assets. It will not usually be possible to identify when those particular transferred assets have been used up by the entity. Therefore, as a practical expedient, in all such cases revenue shall be recorded simultaneously with recording the asset.
- 20.13 Internal expectations or decisions by those charged with governance about how or when the entity expects to use funds received from donations, grants and bequests are not relevant when determining whether the parties have a common understanding as to how the entity will perform in a particular manner. Even if internal expectations regarding the intended use of such an asset received are formed and communicated by an entity's management to a transferor after the asset was received, that communication does not establish a common understanding between the parties that the entity will perform in a particular manner without evidence of the acceptance by the transferor of that intended use.

Principal versus agent considerations

- 20.14 When another party is involved in satisfying an obligation of the entity to a beneficiary or customer, the entity shall determine whether the nature of its obligation is to satisfy the requirements itself (that is, the entity is a principal) or to arrange for those requirements to be met by that other party (that is, the entity is an agent).
- 20.15 An entity is a principal in the transaction if it controls the specified good or service before that good or service is transferred to the beneficiary or customer. Indicators that an entity controls the specified good or service before it is transferred include, but are not limited to, the following:
- (a) the entity has the primary responsibility for providing the good or service to the beneficiary or customer, including the primary responsibility for the acceptability of the good or service (such as whether the good or service meets a customer's specifications);
 - (b) the entity has discretion in establishing the prices, either directly or indirectly, for the good or service; and
 - (c) the entity has inventory risk in relation to the specified goods (eg the customer has a right to return the transferred goods).
- 20.16 An example of an entity acting as a principal is when an entity organises a conference where it is responsible for the overall conference content and delivery, even though the entity may engage third parties to facilitate various sessions.
- 20.17 An entity that is a principal in a transaction records revenue equal to the amount of cash or other assets transferred to the entity in the transaction. An entity that is an agent in a transaction records revenue in the amount of any management or administration charge, fee or commission to which the entity expects to be entitled in exchange for arranging for the specified goods or services to be provided to beneficiaries or customers. An entity's charge, fee or commission as an agent might be the net amount of consideration that the entity retains after forwarding to another party the consideration received for providing specified goods or services to beneficiaries or customers.

Pledges

- 20.18 A pledge is a promise made by a donor to contribute assets to the entity in the future. Pledged assets and related revenue are not recorded until the promised assets are received. The contingent asset disclosure requirements in paragraph 19.17 apply to pledges that are probable to result in an inflow of economic benefits to the entity.

Volunteer services

- 20.19 An entity may, but is not required to, record volunteer services, or a class of volunteer services, as revenue of the period. An entity may do so only if the fair value of those services can be measured reliably. For example, a reliable measurement of the fair value of volunteered professional services would be available where these services have observable market prices.

- 20.20 An entity that elects to record volunteer services received shall measure those services at their fair value. The entity shall record an expense for the using up of those services for the same amount and at the same time as it records the related revenue.

Disclosures

- 20.21 An entity shall 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 recorded, for example:
- (a) grants and donations specified to be used for the provision of goods or services, or rendering specified purpose;
 - (b) grants and donations for the construction or purchase of long-lived assets;
 - (c) grants and donations, and bequests apart from those disclosed separately under (a) and (b);
 - (d) revenue from the sale of goods or services to customers ;
 - (e) membership fees and subscriptions; and
 - (f) interest, dividends and other investment revenue, .
- In relation to any amounts of revenue disclosed under (d), a general description of the nature of the goods and services provided to customers shall also be disclosed.
- 20.22 The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph 20.21.
- 20.23 If there is difficulty in determining the category that should be used for a particular transaction, the entity shall use judgement to determine an appropriate classification. This classification shall be applied consistently to similar transactions and in future periods.

Volunteer services

- 20.24 In relation to volunteer services provided to an entity during the reporting period, the entity shall disclose:
- (a) a description of those services; and
 - (b) the amount, if any, recorded as revenue.
- 20.25 An entity shall disclose sufficient descriptive information about volunteer services received to enable users of its financial statements to understand the effects of volunteer services on the entity's operations, including the entity's dependence on volunteer services for the achievement of its objectives and any known information about forthcoming significant changes to the nature and extent of expected volunteer services. An entity is not required to quantify the value of volunteer services received.

Deferred revenue obligations

- 20.26 An entity shall disclose the total amount of deferred revenue obligations at the reporting date, showing separately the current and non-current portions, and disaggregated by how the entity will perform (eg transfer of goods and services or construction of a building) in exchange for the assets received.
- 20.27 Notwithstanding paragraph 3.6, an entity shall classify a deferred revenue obligation (or part thereof) as a current liability if the entity expects, consistent with paragraph 20.5, the liability to be reduced and revenue recorded within twelve months after the reporting date. All other deferred revenue obligations shall be classified as non-current.

Section 21: Expenses

- 21.1 Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims. Expenses shall be recorded upon the recording of a decrease in assets, or an increase in liabilities, of the nature referred to above. Recording expenses is based on accrual accounting, where not all cash payments give rise to an expense (eg purchases of assets or settlements of liabilities paid for with cash, neither of which decreases equity), and some expenses arise in the absence of a cash payment (eg liabilities incurred to pay for employee services consumed, and using up of assets recorded as depreciation). The timing of the recording of various types of expense is specified in other sections of this Standard.

- 21.2 Expenses include only amounts paid and payable by the entity with resources it controls. Amounts paid on behalf of others using resources controlled by that other entity are not expenses of the entity. Paragraphs 20.15–20.16 provide guidance on whether an entity is acting as an agent of another entity.

Section 22: Impairment of Assets

Scope of this section

- 22.1 This section applies to the accounting for the impairment of assets except for:
- (a) financial assets. Section 10 sets out the impairment requirements for financial assets; and
 - (b) non-financial assets regularly revalued to fair value in accordance with paragraphs 14.8, 15.13 or 16.14.

Identifying and recording impairment losses

- 22.2 At each reporting date, an entity shall assess whether a non-financial asset (eg inventories and property, plant and equipment) is impaired when, and only when:
- (a) the asset has been damaged physically or is a perishable item that has spoilt or become obsolete; or
 - (b) 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.
- 22.3 If any of the events in paragraph 22.2(a) or (b) has occurred, the entity shall identify whether the asset's carrying amount is impaired by determining whether it exceeds the asset's recoverable amount. If an excess exists, the entity shall reduce the asset's carrying amount to its recoverable amount. The reduction shall be recorded as an impairment loss in profit or loss.
- 22.4 An entity shall assess inventory for impairment either individually or grouped on the basis of similar characteristics. An entity shall assess other assets for impairment at an individual asset level.

Measuring recoverable amount

Inventories

- 22.5 The recoverable amount of an item of inventory (or group of similar items of inventory) is:
- (a) for inventories held for distribution – cost less loss of service potential. The loss of service potential shall be measured by reference to the cost or current replacement cost of those inventories; and
 - (b) for all other inventories – the selling price less the costs to complete and sell.
- 22.6 If one or more of the events in paragraph 22.2 occurs in respect of inventory held for distribution, an entity shall use judgment in assessing whether a loss of service potential of those inventories has occurred, and the amount of any loss. In many cases, a loss of service potential of inventory would be identified from a current replacement cost (see paragraph 11.9(b)) that is lower than the original acquisition cost or other subsequent carrying amount of the inventory. In other cases, such as in cases involving obsolescence, the cost of an item might be an appropriate measure of the associated loss of service potential. For example, the cost of damaged inventory that needs to be scrapped might be an appropriate estimate of the inventory's loss of service potential, while the loss of service potential of superficially damaged inventory might be more appropriately estimated by reference to the inventory's current replacement cost.

Other non-financial assets

- 22.7 The recoverable amount of an individual non-financial asset other than inventory is the higher of its fair value less costs of disposal and its value in use. There is a rebuttable presumption that an asset's fair value less costs of disposal.

Fair value less costs of disposal

- 22.8 Section 11 provides guidance on fair value measurement. Costs of disposal are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Value in use

22.9 Value in use is the present value of the future cash flows expected to be derived from an asset. The present value calculation involves the following steps:

- (a) estimating the future cash inflows and outflows expected to be derived from:
 - (i) continuing use of the asset; and
 - (ii) disposal of the asset at the end of its useful life in an arm's length transaction between knowledgeable, willing parties; and
- (b) applying a current market-based risk-adjusted discount rate to those future cash flows.

An entity may use recent financial budgets or forecasts in estimating the cash flows expected from continuing use of the asset.

Section 23: Employee Benefits

Notes to Board members

The Board decided to finalise renumbered Section 23 (previously Section 24) as exposed in ED 335 at the 3 July 2025 Board meeting. However, staff have made amendments to address stakeholder comments to reduce verbosity and improve the readability of the Section and clarity of the requirements, and to make technical and editorial corrections or improvements following further staff consideration of the exposure draft. The more significant amendments to Section 23 are:

- The section has been amended to remove the references to vesting and non-vesting to further simplify the language of this section.
- Paragraph 23.1(c) was amended by transferring the words in parentheses in the first 2 lines to the definition of “post-employment benefits” in the glossary
- The heading preceding para. 23.3 and 23.4 was amended to “Compensated absences” in recognition that the content of the subsection addresses more than just accumulating leave
- New paragraph 23.3, located under ‘Recording employee benefits’ has been added to more clearly state the requirements of paragraphs 23.3 and 23.4 of ED 335, to bring more prominence to the requirement and to recognise that the requirement is applicable to the recording of employee benefits more generally rather than specifically only for compensated absences. For example, staff think that application of the accounting hierarchy would similarly result in non-monetary benefits being treated the same way as non-vesting leave (paragraph 23.4 of ED 335) – restating and relocating the paragraph to not address only leave appears consistent with the explicit reference to non-monetary benefits in paragraph 23.1.
- Paragraphs 23.5 and 23.6 of ED 335 were deleted as the requirements have been combined with paragraph 23.4 to reduce verbosity.
- Paragraph 23.6 was amended to more accurately reflect the Board’s decision that any future pay rises, including those approved by management before the end of the reporting period, are not taken into account when measuring employee benefit expenses or liabilities.
- Articulation of the cost of recognised accumulating paid absences was added to paragraph 23.6 to more clearly explain the measurement of the liability and expense.

Scope of this section

23.1 This section applies to employee benefits, except when paragraph 1.5 requires or permits a different accounting treatment. Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees, including directors and management. Employee benefits include:

- (a) wages and salaries (including performance-related bonuses);
- (b) compensated absences (such as annual leave, sick leave and long-service leave);
- (c) post-employment benefits, such as employer contributions to defined contribution plans; and
- (d) non-monetary benefits (such as medical care, housing, motor vehicles and other free or subsidised goods or services) for current employees.

Recording employee benefits

- 23.2 Subject to 23.3, an entity shall record the cost of all employee benefits to which its employees became entitled as a result of services rendered to the entity during the reporting period as follows:
- (a) as a liability, after deducting amounts paid either directly to the employees or to a third party on their behalf (eg payment of a tax instalment or a contribution to a defined contribution plan). If the amount paid exceeds the obligation arising from services received before the end of the reporting period, the entity shall record that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund; and
 - (b) as an expense, unless the cost is recorded as part of the cost of an asset such as inventory or an item of property, plant and equipment, as required by another section of this Standard.
- 23.3 Notwithstanding paragraph 23.2, an entity shall record the cost of employee benefits that:
- (a) may only be taken during employment with the entity; and
 - (b) do not entitle employees to a cash payment for unused entitlement on leaving the entity;
- when, and only when, the entitlement is used. Examples of these employee benefits are sick leave and parental leave.

Compensated absences

- 23.4 Accumulating paid absences (leave) are employee entitlements that are carried forward and can be used in future periods if the current period's entitlement is not used in full. . Examples of accumulating paid absences include annual leave, sick leave and long-service leave entitlements. In applying paragraphs 23.2 and 23.3, an entity records a liability for employee benefits only for those accumulating paid absences for which, at some past (or future) time, the employee has (or will) become entitled to payment of the accumulated entitlement when they depart the entity (eg annual leave and long-service leave).
- 23.5 Non-accumulating paid absences do not carry forward, and lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. In applying paragraphs 23.2 and 23.3, an entity records the cost of non-accumulating paid absences only when the absences occur. Examples of non-accumulating paid absences are jury service and compensated time-in-lieu balances that expire at the end of the reporting period.

Measurement of employee benefits

- 23.6 An entity shall measure its liability and expense for employee benefits at the undiscounted amount of employee benefits expected to be paid in exchange for the services rendered, using the pay rates applicable at the reporting date and ignoring any approved or possible future pay rises. The cost of accumulating paid absences that are payable on departure is the additional amount that the entity expects to pay as a result of the unused accumulated entitlement at the end of the reporting period.
- 23.7 An entity shall remeasure its liability for employee benefits for changes in its estimate of employee benefits expected to be paid in exchange for the past services rendered; including to reflect changes in pay rates and changes in expectations of whether the entitlement will become available to the employee. The remeasurement of the liability shall be recorded as part of the cost of employee benefits of the reporting period..
- 23.8 In estimating a provision for long-service leave, an entity shall take into account the likelihood that employees will become entitled in a future period to use (or be paid out) their long-service leave benefits. Approaches for estimating the obligation include by reference to the probability-weighted expected value of all possible outcomes or to the most likely outcome of the obligation.

Disclosures

- 23.9 An entity shall disclose the amount recorded in profit or loss as an expense for defined contribution plans.

Section 24: Income Taxes

Notes to Board members

The Board decided to finalise the renumbered Section 24 (previously Section 25) as exposed in ED 335 at the 3 July 2025 Board meeting. However, on re-examination of the requirements, staff have made amendments to improve the readability of the Section and brevity of the requirements. The more significant amendment to Section 24 are:

- paragraph 24.1 now states that the income tax expense for a period includes adjustments of income tax liabilities for any under/over-estimates of taxes payable in financial statements for prior periods. This replaces the less comprehensive reference later in paragraph 24.1 to unpaid amounts assessed in respect of a prior period;
- paragraph 24.1(a) and 24.1(b) amended to remove reference to when financial statements are authorised for issue as unnecessary additional guidance, given similar guidance is not included in other instances where information may be confirmed after the reporting date.
- Paragraph 24.2 of ED 335 has been removed to avoid duplication, as the requirements merely signpost the disclosure requirements in Sections 3 and 4.

24.1 This section applies to the accounting for income taxes. An entity that pays income tax shall record income tax expense for the income tax payable for the reporting period and for any under- or over-estimate of income tax assessed in respect of one or more prior periods. The amount shall be based on the following sources in descending order:

- (a) the tax assessment for the period ;
- (b) the tax return for the period ; and
- (c) an estimate of the amounts to be included in the tax return for the period.

The liability for income tax payable at the reporting date shall be measured as the estimated amount of income tax that remains unpaid at the end of the reporting period.

Section 25: Foreign Currency Translation

Notes to Board members

Based on the 3 July 2025 Board meeting discussion, paragraph 25.1(b) has been amended to include a reference that the effects of changes in exchange rates on monetary asset and liability balances are recorded in profit or loss.

25.1 This section applies to the accounting for foreign currency. The financial statements shall be presented in Australian dollars. If an entity has transactions or balances that are not denominated in Australian dollars, it shall translate these amounts into Australian dollars as follows:

- (a) transactions are translated using the exchange rate on the date of the transaction; and
- (b) monetary asset and liability balances are translated using the exchange rate at the end of the reporting period. The effects of changes in the exchange rates are recorded in profit or loss.

Section 26: Events Occurring after the Reporting Period

Notes to Board members

The Board decided to finalise renumbered Section 26 (previously Section 27) as exposed in ED 335 at the 3 July 2025 Board meeting. However, on re-examination of the requirements, staff have made amendments to improve the readability of the Section and clarity of the requirements. The more significant amendment to Section 26 are:

- to clarify that only major transactions are examples of non-adjusting events for which disclosure is required.
- paragraph 26.4(c) of ED 335 is proposed to be deleted because the disclosure is additional to what is required in AASB 1060. Section 2 paragraph 2.7 already requires an entity to disclose when the financial statements are not prepared on a going concern basis, together with the reasons why and the basis used. Paragraph 2.8 would require the entity to make judgement on whether a change in the carrying amounts of assets and liabilities is required as a result of a change in the entity's ability to continue as a going concern, depending on the entity's particular circumstances. Therefore, staff think the information about the entity's ability to continue operating is already implicit when determining whether the carrying amounts of assets and liabilities would need to change.

- 26.1 This section applies to the accounting for, and disclosure of, events occurring after the reporting period. Events occurring after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.
- 26.2 An entity shall adjust the amounts recorded in its financial statements and update the related disclosures to reflect events that occur after the reporting period and provide evidence of conditions that existed at the end of the reporting period. The following are examples of events that require an entity to adjust the amounts recorded in its financial statements, or to record items not previously recorded:
- (a) the settlement after the end of the reporting period of a court case confirming that the entity had a liability at the end of the reporting period because the disputed event occurred on or before that date. The entity adjusts any previously recorded provision related to this court case in accordance with Section 19 or records a new provision;
 - (b) the receipt of information after the end of the reporting period indicating that an asset was impaired or further impaired at that date. For example:
 - (i) the bankruptcy of a debtor occurring after the end of the reporting period usually confirms that the debtor was credit-impaired at the end of the period; and
 - (ii) the disposal of physically damaged inventories or perishable items after the end of the reporting period might provide evidence about their estimated selling price less costs to complete and sell at that date; and
 - (c) the discovery of fraud or errors showing that the financial statements are incorrect.
- 26.3 An entity shall not adjust the amounts recorded in its financial statements to reflect events after the end of the reporting period indicating conditions that arose after that date. Instead, the entity shall make the disclosures required by paragraph 26.4. The following are examples of such events:
- (a) the entity's management decides, after the end of the reporting period, to make major further grants to the community;
 - (b) major purchases and disposals of assets occurring after the end of the reporting period; and
 - (c) a decision made by a lender after the end of the reporting period to forgive a major loan of the entity.

Disclosures

- 26.4 Where material events occur after the end of the reporting period and indicate conditions that arose after that date, the entity shall disclose the following information in the notes for each material category of such events:
- (a) the nature of the event; and
 - (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.
- The disclosures shall reflect information that becomes known after the end of the reporting period but before the financial statements are authorised for issue.
- 26.5 An entity is not required to disclose comparative information about events occurring after the end of the previous reporting period.

Question 3 to Board members

When drafting the requirements for renumbered Section 27 (previously Section 28) of ED 335, the definition of 'related party' was placed in the Glossary of Terms, to give primacy to disclosure requirements over definitions and related clarifications, consistent with the general structure of IFRS-based Standards. The rationale for placing the definition in the glossary was based on the assumption that a Tier 3 entity's related party relationships are likely to remain more stable over time than their transactions. Accordingly, the section emphasised disclosure requirements and included only a brief description of 'related party' for ease of reference and readability.

However, staff have re-examined the section and on reflection, consider that some of the content exposed as part of the definition of a related party is in the nature of guidance on the definition, rather than being part of the defined term. Therefore, staff think this content should be moved to the body of Section 27, as shown in draft new paragraphs 27.3 and 27.4. In making this edit, staff have substituted the example in ED 335 with a new example that continues to focus on notable relationship entities, to avoid emphasising uncertainty in establishing the nature of a relationship. This is because an entity that accounts for subsidiaries, associates and joint ventures must have, in preparing the financial statements, applied judgement to establish the nature of the relationship, and as the distinction (and any uncertainty) is not relevant for an entity that classifies these entities as notable relationship entities.

Staff also note that paragraph 27.2 as exposed in ED 335 ignores various parties that are also related parties of the entity (e.g. where the entities are sister entities). Therefore, staff have proposed replacing it with the statement, taken from the defined term, that a related party is a person or an entity that is related to the reporting entity. Given this and as staff think it may be more helpful to readers of the Standard to be able to see the entire definition in the same one location, staff now consider that the Board may want to present the complete defined term within the body of the Standard. Staff note the defined term could be presented in a more concise manner without losing clarity, by presenting each part of the defined term as a separate paragraph (these paragraphs would be located between paragraph 27.1 and 27.2).

Staff note that no feedback was received on the Exposure Draft disagreeing with the definition being located in the glossary. Nevertheless, on balance, staff recommend that the definition of 'related party' should be included in the body of the Standard, given stakeholders have consistently emphasised the importance of related party disclosures during development of the Discussion Paper and the Exposure Draft proposals.

Do Board members agree with staff recommendation to include a definition of related party in the body of the Standard rather than in the glossary of terms?
If not, what do Board members suggest?

Section 27: Related Party Disclosures

Notes to Board members

The Board decided at the 7 October 2025 Board meeting to finalise renumbered Section 27 (previously Section 28) as exposed in ED 335. However, on re-examination of the requirements, staff have made the following clarifying amendments rather than changing the Board's intended requirements:

- Para. 27.7 of ED 335 was removed – while these examples are the same as paragraph 197 of AASB 1060, on re-examination of these examples, in the context of this Section the paragraph does not add any substantive guidance.
- Paragraph 27.9 was amended to make it clearer to simply state that entities that present investments in notable relationship entities are required to make the related party disclosures specified in paragraphs 27.7 and 27.8. Staff have also reinstated a separate category for key management personnel of the entity or its parent (per paragraph 27.19(c)), consistent with the disclosure requirements in paragraph 199 of AASB 1060. This category had been removed in earlier drafting; however, staff consider it should be retained because the Board's decision was only to remove the requirement to disclose key management personnel compensation, not to remove disclosures about related party transactions to be made by categories, including with key management personnel as a separate category.
- Paragraph 27.10 was amended to move the definition of key management personnel into the glossary of terms instead.
- Paragraph 27.11 was amended to clarify that related party disclosures are also required for notable relationship entities.

Scope of this section

- 27.1 This section requires an entity to include in its financial statements the disclosures necessary to draw attention to the possibility that its financial position and profit or loss have been affected by the existence of related parties and transactions and outstanding balances with such parties. A related party is a person or an entity that is related to the reporting entity.
- 27.2 In considering each possible related party relationship, an entity shall assess the substance of the relationship and not merely the legal form.
- 27.3 For a person or entity to be identified as related to the reporting entity, it is unnecessary to identify which particular factor or condition giving rise to the related party relationship is satisfied, provided that one or another of the conditions is satisfied. Consequently, an entity and the reporting entity are related to each other when a notable relationship exists between the entities, or if the entities are notable relationship entities of the same third entity.
- 27.4 In the context of this Standard, the following are not related parties:
- (a) two entities simply because they have a director or other member of key management personnel in common;
 - (b) two joint venturers simply because they share joint control of a joint venture;
 - (c) any of the following simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process):
 - (i) providers of finance;
 - (ii) trade unions;
 - (iii) public utilities; or
 - (iv) government departments and agencies; and
 - (d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

Disclosures

Disclosure of controlling party relationships

- 27.5 Relationships between a parent and its subsidiaries shall be disclosed regardless of whether there have been transactions between them. An entity shall disclose the name of its parent and, if different, the ultimate

controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so (if any) shall also be disclosed.

Disclosure of related party transactions

- 27.6 A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether:
- (a) a price is charged; or
 - (b) it occurs on terms equivalent to those prevailing in arm's length transactions.
- 27.7 If an entity has related party transactions, it shall, subject to the exemptions in paragraph 27.10, disclose information about:
- (a) the nature of the related party relationship; and
 - (b) the transactions, outstanding balances and commitments;
- necessary for an understanding of the potential effects of the relationship on the financial statements.
- 27.8 At a minimum, the disclosures made in accordance with paragraph 27.7(b) shall include:
- (a) the amount of the transactions;
 - (b) the amount of outstanding balances and:
 - (i) their terms and conditions, including whether they are secured and the nature of the consideration to be provided in settlement; and
 - (ii) details of any guarantees given or received;
 - (c) provisions for uncollectable receivables related to the amount of outstanding balances; and
 - (d) the expense recorded during the period in respect of bad or doubtful debts due from related parties.
- 27.9 An entity shall make disclosures required by paragraphs 27.7 and 27.8 separately for each of the following categories:
- (a) entities with control, joint control or significant influence over the entity;
 - (b) entities over which the entity has control, joint control or significant influence;
 - (c) key management personnel of the entity or its parent; and
 - (d) other related parties
- 27.10 The disclosures in paragraphs 27.7 and 27.8 need not be made for:
- (a) compensation paid to the entity's key management personnel; and
 - (b) donations received by the entity from a related party, unless evidence indicates the donations could influence the entity's activities or use of resources. An example of such evidence is when a donation is received on the condition that the entity must consequently purchase goods or services from a specified supplier.
- 27.11 In applying paragraph 27.9, an entity that presents investments in notable relationship entities discloses the information required by paragraphs 27.7 and 27.8 for these investments separately from the disclosures for other related parties. 27.12 Examples of transactions that are disclosed if they are with a related party are:
- (a) purchases, sales or other transfers of goods (finished or unfinished), property and other assets;
 - (b) rendering or receiving services;
 - (c) lease rental receipts and payments;
 - (d) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
 - (e) provision of guarantees or collateral;
 - (f) commitments to do something if a particular event occurs or does not occur in the future; and
 - (g) settlement of liabilities on behalf of the entity or by the entity on behalf of that related party.
- 27.13 An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.
- 27.14 An entity may disclose items of a similar nature in the aggregate, except when separate disclosure is necessary for an understanding of the effects of related party transactions on the entity's financial statements.

Question 4 to Board members

Paragraph 10.5(c) of this draft Standard prohibits application of the hedge accounting requirements in AASB 9 to an entity's financial assets and financial liabilities. At the Board's 7 October 2025 meeting, the Board decided to remove the option in paragraph 29.4 of ED 335 to grandfather the application of Tier 1 or Tier 2 accounting policies for any or all assets or liabilities existing on the date of transition to the Tier 3 Standard (see [minutes](#) of meeting). As a result of the Board's decision, staff noted that it would bring an analysis to a future Board meeting of whether a transitional provision should be provided to permit entities with hedging relationships at the date of transition to continue hedge accounting until the hedging relationships cease.

Arguments for grandfathering hedge relationships

Staff observe that it would be inconsistent, and increase complexity, not to grandfather hedge accounting for legacy hedging relationships existing at the date of transition to the Tier 3 Standard while grandfathering the recognition/derecognition policies applied to financial instruments (as proposed in paragraph 28.10(a) below). This is because hedge accounting affects *where* to recognise changes in the carrying amounts of financial assets or financial liabilities, which is a similar topic to *whether* financial assets or financial liabilities should be recognised or derecognised. Removing hedge accounting for existing relationships could require entities to unwind hedges or restate prior transactions which could be costly and burdensome. Alternatively, the Board could consider removing hedge accounting by permitting entities to use the existing carrying amounts of hedged items and hedged instruments as deemed carrying amounts, with Tier 3 accounting requirements applied from that point onward.

Staff note that grandfathering hedge relationships would only apply to those relationships that exist at the date of transition, not new ones, which is a limited transitional provision. If the Board decided to grandfather hedge accounting for legacy hedging relationships without requiring the entity change its existing accounting treatments, staff have developed the following text to be inserted as a new subparagraph to paragraph 28.10:

“hedge accounting. An entity shall not change its hedge accounting before the date of transition for hedging relationships that no longer exist at the date of transition. An entity that continues recording its financial assets and financial liabilities under its previous accounting policies may continue to apply its previous hedge accounting policy to its hedged assets and liabilities held at the transition date, until the hedging instrument is derecognised;”

Arguments against grandfathering hedge relationships

However, staff note that allowing hedge relationships to continue would introduce additional measurement and disclosure requirements and Tier 3 is designed for simplicity, which contradicts the Board's decision not to allow hedge accounting. Staff also consider that hedge accounting is unlikely to be widely used by Tier 3 NFP entities; therefore, developing a transitional provision for a rare scenario may not justify the complexity. Staff also note that AASB 1 paragraph B6 and IFRS for SMEs paragraph 35.9(b) require an entity that had designated a transaction as a hedge, but the hedge does not meet the conditions for hedge accounting in AASB 9 (or for IFRS for SMEs Part II of Section 11), to discontinue hedge accounting. Therefore, introducing a transitional provision to grandfather hedge relationships where the draft Tier 3 Standard prohibits hedge accounting would conflict with the principles applied under Tier 1 and Tier 2 requirements. If the Board decides not to grandfather hedge accounting of legacy hedging relationships, staff think no further text is necessary to include in the Standard to effect this.

Staff recommendation

On balance, staff recommend the Board not to grandfather hedge accounting for legacy hedging relationships existing at the date of transition to the Tier 3 Standard because the Board decided to develop the transitional provisions based on AASB 1. Not permitting grandfathering existing hedge relationships would also align with this Board's previous decision not to permit hedge accounting within the Tier 3 Standard.

Do Board members agree with the staff recommendation not to grandfather hedge accounting for hedging relationships existing at that date of transition?

If not, what do Board members suggest?

Question 5 to Board members

When developing the requirements in paragraph 28.12 in relation to the deemed cost exemption, staff noted that the only measurement basis permitted under Australian Accounting Standards for revaluations of property, plant and equipment, investment properties and intangible assets is fair value. This is consistent with paragraphs D5–D7 of AASB 1, which permit a first-time adopter to use a previous generally accepted accounting principles (GAAP) revaluation of such assets as deemed cost only when the previous GAAP revaluation was, at the date of revaluation, broadly comparable to fair value or otherwise aligned with cost or depreciated cost under Australian Accounting Standards. Consequently, staff considered it unnecessary to refer to other current value bases for determining deemed cost for non-financial assets, because Australian Accounting Standards do not allow such bases.

At the time, the Board also noted that Section 8 provided limited guidance on determining cost for investments, and therefore focused the deemed cost exemption on permitting a first-time adopter to elect to use the fair value of investments in subsidiaries, associates and jointly controlled entities (and, where elected, investments in notable relationship entities) as deemed cost.

However, on re-examining the proposed requirements, staff note that paragraph D15(b) of AASB 1 explicitly provides a second alternative: i.e. the deemed cost of such investments may be fair value at the date of transition or the previous GAAP carrying amount at that date. 'Previous GAAP' is defined in AASB 1 as "The basis of accounting that a first-time adopter used immediately before adopting Australian Accounting Standards". Excluding the previous GAAP carrying amount option in ED 335, therefore, represents a departure from AASB 1 and may impose unnecessary costs on entities. Under many previous GAAP frameworks, the carrying amount of an investment may incorporate elements such as transaction costs or historical impairment adjustments. Moreover, requiring fair value to be the only deemed cost alternative could oblige some entities to obtain valuations that are costly.

Accordingly, staff recommend allowing the previous GAAP carrying amount as an additional option for determining deemed cost for investments in associates, subsidiaries, joint ventures and notable relationship entities. This reinstates the relief available under paragraph D15(b) of AASB 1 and reduces unnecessary transition costs for first-time adopters. The draft text reflecting this additional option has been included in paragraphs 28.12(a)(iii) and 28.12(a)(iv). For simplicity of understanding given the defined term, staff do not think it is necessary for the carrying amount to be labelled as a 'GAAP' carrying amount.

Do Board members agree with staff recommendation to allow the previous GAAP carrying amount as an additional option for determining deemed cost for investments in subsidiaries, associates, joint ventures and notable relationships entities?

If not, what do Board members suggest?

Question 6 to Board members

At its October 2025 meeting, the Board decided to permit a parent entity transitioning to application of Tier 3 reporting requirements to apply Section 17 *Entity Combinations* on a prospective basis. On re-examination of Section 28, staff identified a need for this Standard to relatedly address whether the goodwill balance associated with entity combinations that were not restated should remain recognised.

Staff recommend that the Board require goodwill to be derecognised at the transition date, whether or not Section 17 applied to the combinations giving rise to that goodwill. Staff note that this treatment of goodwill would be the only retrospective application of Section 17 (which prohibits the recognition of goodwill on entity combinations, in paragraph 17.9) for entities that make the election. However, staff consider this inconsistency with the general (prospective application) relief provided in paragraph 28.12(e) would be proportionate for Tier 3 NFP entities, because permitting continued recognition of goodwill would:

- (a) contradict the Board's ongoing prohibition of goodwill's recognition; and
- (b) require either that Tier 3 NFP entities incur the cost and effort of applying the hierarchy of authoritative sources referred to in paragraph 9.5, or that the Board specifies requirements for the amortisation and/or impairment of goodwill (the latter would also necessitate guidance on impairment of cash-generating units, as noted in paragraph BC117 of ED 335 – whereas, at its 19 August 2025 meeting, the Board [decided](#) to clarify that the recoverable amounts of non-financial assets other than inventory are measured at an individual asset level). Either of these responses would involve disproportionate complexity.

Do Board members agree with the staff recommendation to specify in paragraph 28.12(e) that, if a parent entity applies the optional relief in paragraph 28.12(e) to apply Section 17 to entity combinations prospectively, any balance of goodwill existing at the date of transition to this Standard shall cease to be recognised as at that date?

If not, what do Board members suggest?

Question 7 to Board members

On reflection of Section 28 (renumbered) in ED 335, staff noted that paragraph 28.16 requires entities that resume application of Tier 3 requirements to disclose the reasons they stopped applying the Standard and the reason they are resuming the application of Tier 3 requirements. However, the proposals did not include such disclosure requirements for entities that are resuming application of the Tier 3 reporting requirement but have continued to apply the recognition and measurement requirements of the Tier 3 Standard, as these entities were scoped out of Section 28. Staff observe that AASB 1 requires disclosures for entities that previously applied Australian Accounting Standards, subsequently ceased, and later resumes application. Under AASB 1, the entity must provide specific disclosures so that users understand:

- (a) why the entity stopped apply AAS;
- (b) why it is resuming; and

(c) how it applied the transition requirements to its opening balances.

These disclosures apply to both entities that did not comply with Australian Accounting Standards in their most recent previous financial statements and those that continue to apply recognition and measurement requirements but did not make an explicit and unreserved statement of compliance.

Staff noted that the drafting in paragraph 28.3 inadvertently excluded these entities from the disclosure requirement in paragraph 28.16. Staff consider that the same disclosures should be required for all entities resuming application of Tier 3 reporting requirements, irrespective of whether the entity previously applied all or only some of the Tier 3 recognition and measurement requirements. Accordingly, staff recommend extending the disclosure requirements in paragraph 28.16 to entities whose most recent previous financial statements complied with all relevant Tier 3 recognition and measurement requirements but did not include an explicit unreserved statement of compliance with the Standard. Staff have reflected the staff recommendation in text at the end of paragraph 28.3.

Do Board members agree with the staff recommendation to require the disclosures in paragraph 28.16 for all entities that applied all relevant Tier 3 recognition and measurement requirements but did not make an explicit unreserved statement of compliance, on resuming application of the Tier 3 Standard?

If not, what do Board members suggest?

Question 8 to Board members

On reflection of Section 28 (renumbered) in ED 335, staff considered the possible instance of a consolidated entity (or equity accounted financial statements) moving to Tier 3 reporting requirements which do not require the consolidation of subsidiaries or the application of the equity method of accounting. These entities may not have previously presented separate financial statements. In the absence of direction, staff think diversity might result:

1. Some practitioners might contend that the transitional relief in paragraph 28.12(g) should be regarded as applying also to the financial statements. Consequently, no comparative financial statements for the unconsolidated reporting entity need to be presented, as no comparable financial information was disclosed for the comparative period.
2. Others might consider that while the transitional relief in paragraph 28.12(g) is available, the resulting financial statements will not present users with useful, consistent and transparent information if comparative financial statements were not presented, and consequently, that paragraph 2.2 would require the entity to present the consolidated financial statements for the comparative period alongside the current year's separate financial statements, in order to achieve a fair presentation. The investment entity provisions of AASB 10 *Consolidated Financial Statements* provide some support for this view: a change in status resulting in consolidated financial statements ceasing to be prepared is reflected prospectively, implying that (for a status change occurring at the start of the reporting period and assuming there are no non-investment entity subsidiaries) comparative consolidated financial statements continue to be presented together with the investment entity unconsolidated financial statements (refer AASB 10.30 and AASB 10.B101).
3. Yet others might consider that the transitional relief in paragraph 28.12(g) is not intended to apply to such instances, and as such, require the unconsolidated entity to present comparative unconsolidated financial statements prepared under the entity's previously applicable accounting policies.

Having regard to the analysis above, staff observe that the Board might either:

- (a) do nothing (and let practice develop), on expectation that the instances described above are not expected to impact a large number of entities, whether on a Tier 3 Standard becoming effective or in the future; or
- (b) develop a requirement to clarify its expectations in this regard.

Staff have mixed views. Some staff support (a) [do nothing] for the reason given. Other staff support (b), as clarity in this regard will void costs that entities in this scenario might otherwise incur in developing a position supported by its auditors.

Staff who support (b) also, on balance, support the view in 2. above in preference to the other two views envisaged on consideration of the costs/benefits of not including comparative information or requiring a further set of financial statements to be prepared. View 2 appears to provide an appropriate balance of cost/benefit: users benefit from having the comparative financial information, but albeit not for the 'exact' same entity. These staff propose the Board develop the following requirement:

28.X *Notwithstanding paragraph 28.12(g), unless paragraph 28.5 applies, an entity that on adoption of this Standard ceases to present consolidated financial statements or financial statements in which the equity method of accounting is applied shall present those financial statements as its comparative financial statements.*

Do Board members prefer to:

- (a) make no change to the draft Standard, on the basis that additional requirements may not be warranted given the expectation that the scenario described above is unlikely to impact many entities, and taking into account the Board's intention to keep the Standard concise and proportionate; or

- (b) include an additional requirement to avoid unnecessary cost and audit effort for entities in this situation, to require that such entities present their most recent consolidated (or equity-accounted) financial statements as their comparative information, consistent with the staff recommendation?

If Board members disagree with either (a) and (b), what do Board members suggest?

Notes to Board members

Based on the 7 October 2025 Board meeting discussion, the following amendments have been made (*with references below to ED 335 paragraphs renumbered from 29.x to 28.x*):

- Paragraphs 28.4 and 28.20 of ED 335 were deleted and paragraphs 28.4 (stem) and 28.12 (stem) amended, resulting from the removal of the option to grandfather the application of Tier 1 or Tier 2 accounting policies for any or all assets or liabilities existing on the date of transition to the Tier 3 Standard;
- Additionally, paragraph 28.4 was amended, and paragraph 28.5 was added, to clarify that the date of transition will be the same date, regardless of whether Section 9 or Section 28 is applied, unless a Tier 3 NFP entity transitioning via Section 28 makes an election to present full Tier 3-compliant comparative financial information;
- Paragraph 28.12(d) was amended to extend the scope of its transitional provisions so that an entity may elect to present changes in the fair value of its investments in notable relationship entities and investments in associates and joint ventures in other comprehensive income at the date of transition to the Tier 3 Standard – with that date deemed to be the date of initial recognition of the first asset within the class of assets;
- Paragraph 28.12(e) was added to provide a specific exemption for a parent entity transitioning to application of Tier 3 reporting requirements that elects to prepare consolidated financial statements and applies Section 28, so that it may elect to apply Section 17 *Entity Combinations* on a prospective basis to entity combinations that occurred before the date of transition to the Tier 3 Standard; and
- Paragraph 28.12(f) was added to extend the optional relief for entities selecting Section 9 on transitioning to the Tier 3 reporting requirements to apply a modified retrospective approach to correcting prior period errors, with the exemption available only on transition to the Tier 3 Standard.

Additional exemptions (transitional provisions)

- Paragraph 28.12(a) was amended to extend its scope to include part(iv) of that paragraph. This relates to the Board's [decision](#) at its 6 – 7 June 2024 meeting to generally conform the Tier 3 transitional provisions to those in AASB 1 *First-time Adoption of Australian Accounting Standards*. Consistent with paragraphs D5, D7(a) and D7(b) of AASB 1, paragraph 35.10(c) of the IFRS for SMEs ED was used as the basis for the deemed cost exemption. Thus, paragraphs 28.12(a)(i) and (ii) of ED 335 proposed permitting fair value at the date of transition to be used as the deemed cost of property, plant and equipment, investment property and intangible assets. Paragraph 28.11(b) of ED 335 was deleted and paragraph 28.12(a)(iii) added to streamline the deemed cost exemption for investments in notable relationship entities. However, to fully implement the Board's decision to conform to AASB 1 (except where decided otherwise), paragraphs 28.12(a)(iv) remedy the ED's omission of paragraphs D14 and D15(b)(i) of AASB 1, by permitting fair value at the date of transition to be used as the deemed cost of investments in subsidiaries, joint ventures and associates.
- In addition to the Board's decision to amend paragraph 28.12(d) as noted above, this paragraph was also amended to include investments in subsidiaries to the scope of the election to present changes in the fair value of those investments in other comprehensive income.
- In addition to the Board's decision to amend paragraph 28.12(e) as noted above, this paragraph was also amended to include a specific exemption to permit Section 13: *Investments in Associates and Interests in Joint Arrangements* to be applied prospectively to acquisitions of investments in associates and interests in joint arrangements. This exemption would be consistent with paragraph C5 of AASB 1, which provides a similar election for an entity to prospectively apply AASB 1 to past acquisitions of investments in associates, interests in joint ventures and interests in joint operations.

Other amendments

On re-examination of the requirements, staff made the following clarifying amendments rather than changing the Board's intended requirements:

- Paragraphs 28.1 – 28.2 of ED 335 (regarding the scope of Section 28) were amended to simplify the guidance and paragraph 28.3 was added, to align Section 28 with the requirements in new paragraph 20A(e) of AASB 1053;
- Paragraph 28.3 of ED 335 (regarding the choice between Sections 9 and 28 pathways to transition) was transferred to paragraph 28.6 and streamlined;

- Paragraph 28.5 of ED 335 (regarding relief from disclosing comparative information) was relocated to paragraph 28.12(g) as part of the list of exceptions to retrospective application of certain aspects of the Tier 3 Standard;
- Paragraph 28.7 was added to clarify that entities apply the transitional provisions in Section 28 for transactions, events and conditions listed in paragraph 1.5 rather than the transitional provisions within those listed Australian Accounting Standards on transitioning to the Tier 3 Standard. A clarification is also included that if an entity that applies paragraphs 9.10 – 9.11 to transition to the Tier 3 requirements and held a class of assets on the transition date, it cannot elect to present changes in fair value of that class through other comprehensive income;
- Paragraph 28.9 includes an added clarification that entities applying Section 28's rules for transition apply a modified retrospective approach to changes in accounting policies;
- Paragraph 28.12(c) includes a new example that entities using the optional prospective approach to revenue recognition for transactions that occur on or after the date of transition do not recognise deferred revenue obligations if revenue was previously recognised in application of a cash basis of revenue recognition;
- Paragraph 28.12 of ED 335 was deleted as the paragraph is simply providing duplicative guidance on which disclosures are applicable to Section 28 or Section 9;
- Paragraph 28.13(b) sets out a relocated requirement (from paragraph 28.23 of ED 335) for entities that apply the modified retrospective approach to transition in paragraphs 9.10 – 9.11 to make the disclosures in paragraph 9.13, unless it is impracticable to do so. Consequently, paragraph 28.23 of ED 335 was deleted;
- In paragraph 28.14, the second sentence (regarding prospective application of the revenue recognition requirements) was deleted because it is redundant: the general disclosure requirements about the elections made in paragraph 28.12 encompass that specific disclosure;
- Paragraph 28.17 of ED 335 was deleted because the conditional exemption from having to disclose comparative information in former paragraph 28.17(a) is now set out in paragraph 28.12(g), which is applicable regardless of whether Section 9 or Section 28 is the pathway to transition. Additionally, the exemption from having to distinguish corrections of prior period errors and changes in accounting policies in former paragraph 28.17(b) is now set out in paragraph 28.12(f). Consequently, the disclosure requirement in paragraph 28.18 of ED 335 is encompassed by the requirement in paragraph 28.14 to disclose any elections made under paragraph 28.12 – therefore, paragraph 28.18 of ED 335 was deleted;
- Paragraph 28.19 of ED 335 was deleted because it used 'shall' in a cross-reference to optional disclosures of reconciliations in paragraph 28.18; and
- Paragraph 28.22 of ED 335 was deleted because its disclosure requirement is encompassed by the requirement in paragraph 28.14 to disclose any elections made under paragraph 28.12.

Section 28: Transition to Tier 3 General Purpose Financial Statements

Scope of this section

- 28.1 This section applies to the first set of financial statements prepared by an entity that is:
- complying with this Standard for the first time; or
 - resuming the application of Tier 3: Australian Accounting Standards – Simplified Accounting reporting requirements, and its most recent previous financial statements do not comply with all the relevant recording and measurement requirements of this Standard.
- These financial statements ('first Australian-Accounting-Standards financial statements (Tier 3)') are those that conform with the requirements of this Standard in all respects and include an explicit and unreserved statement of such compliance.
- 28.2 This section applies when the entity's most recent previous financial statements:
- were held out to be general purpose financial statements that comply with Tier 1: Australian Accounting Standards or Tier 2: Australian Accounting Standards – Simplified Disclosures reporting requirements; or
 - were special purpose financial statements.
- 28.3 This section does not apply to the financial statements of an entity that is resuming the application of Tier 3 reporting requirements when its most recent previous financial statements complied with all relevant recording and measurement requirements of this Standard. However, these entities shall make the disclosures in paragraph 28.16 in addition to those required by Section 9.

Date of transition

- 28.4 Except where paragraph 28.5 applies, an entity's date of transition to this Standard is the beginning of the current reporting period.
- 28.5 An entity that complies with paragraph 28.6(a) may elect to restate the comparative financial statements in its first Australian-Accounting-Standards financial statements (Tier 3) to reflect the recording, measurement, presentation and disclosure requirements of this Standard. In this case, the entity's date of transition to this Standard is the beginning of the earliest comparative period presented in those financial statements. The exemptions in paragraphs 28.12(f) and (g) are not available.

Procedures for preparing the financial statements

- 28.6 In its first Australian-Accounting-Standards financial statements (Tier 3), an entity shall apply either:
- (a) the requirements in paragraphs 28.8–28.12; or
 - (b) all relevant requirements of this Standard, using the requirements for changes in accounting policies in paragraphs 9.10–9.11. However, the exemptions in paragraphs 28.12(f) and (g) are available.
- 28.7 For the avoidance of doubt:
- (a) the requirement in paragraph 1.5 for an entity to comply with the transition requirements of the Standards listed in that paragraph does not apply to an entity that complies with paragraph 28.6(a). Instead, the transition requirements in paragraphs 28.8–28.12 apply to its first Australian-Accounting-Standards financial statements (Tier 3); and
 - (b) the election to present changes in fair value in other comprehensive income permitted by other sections of this Standard is not available for a class of assets already held on the date of transition by an entity that applies paragraphs 9.10–9.11 in its first Australian-Accounting-Standards financial statements (Tier 3).
- 28.8 Except as set out in paragraphs 28.10 and 28.12, an entity shall on its date of transition to this Standard:
- (a) record all assets and liabilities that this Standard requires to be recorded;
 - (b) cease recording items as assets or liabilities if this Standard does not permit such recording;
 - (c) reclassify items recorded under its former accounting policies as one type of asset, liability or component of equity that are a different type of asset, liability or component of equity under this Standard; and
 - (d) apply this Standard in measuring all recorded assets and liabilities.
- 28.9 The accounting policies an entity uses as at the date of transition to this Standard may differ from those it used in its most recent previous financial statements. An entity shall account for changes in accounting policies retrospectively by recording the cumulative effect of the new accounting policy at the date of transition, as if the new accounting policy had always been applied and without restating information presented in prior periods. The resulting adjustments to an entity's financial position on the date of transition arise from transactions, other events or conditions before the date of transition to this Standard. Therefore, an entity shall record those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition.

Exceptions to the requirements of this Standard

- 28.10 In its first Australian-Accounting-Standards financial statements (Tier 3), an entity shall not retrospectively change the accounting that it followed under its previous accounting policies for any of the following items:
- (a) ceasing to record financial assets and financial liabilities – financial assets and financial liabilities that an entity ceased recording under its previous accounting policies shall not be reinstated (ie recorded) upon adoption of this Standard. Conversely, for financial assets and financial liabilities within the scope of paragraph 10.2 or as identified in paragraph 10.4 that an entity would have ceased recording under this Standard in a transaction that took place before the date of transition, but that continued to be recorded under the entity's previous accounting policies, the entity may elect to either:
 - (i) cease recording them on adoption of this Standard; or
 - (ii) continue recording them until disposed of or settled;
 - (b) accounting estimates; and

- (c) measuring non-controlling interests – the requirements of paragraph 4.5 to allocate profit or loss and total comprehensive income between non-controlling interests and owners of the parent shall be applied prospectively from the date of transition to this Standard.
- 28.11 An entity may need to make estimates in accordance with this Standard at the date of transition that were not required at that date under the entity's former accounting policies. These estimates shall reflect conditions that existed at the date of transition to this Standard. In particular, estimates at the date of transition to this Standard of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.

Exemptions available on transition

- 28.12 An entity may use one or more of the following exemptions from the requirements of paragraph 28.8 in preparing its first Australian-Accounting-Standards financial statements (Tier 3):
- (a) cost of an asset measured on a cost basis – at the date of transition to this Standard, the entity may elect to measure:
 - (i) an item of property, plant and equipment, an investment property or an intangible asset at its fair value;
 - (ii) an item of inventory at its current replacement cost;
 - (iii) an investment in a notable relationship entity at its fair value or at the carrying amount in its most recent previous financial statements; and
 - (iv) an investment in a subsidiary, joint venture or associate at its fair value or at the carrying amount in its most recent previous financial statements;
 and use that value as its deemed cost at that date;
 - (b) 'make good' obligations included in the cost of property, plant and equipment – paragraph 15.5(c) states that the cost of an item of property, plant and equipment includes the initial estimate of a 'make good' obligation. The entity may elect to measure this component of the cost of an item of property, plant and equipment at the date of transition to this Standard, instead of on the date(s) when the obligation initially arose;
 - (c) revenue – the entity may elect to apply Section 20 prospectively to transactions that occur on or after the date of transition to this Standard. In this case, the entity does not change its accounting policy for recording revenue for any contracts in progress at that date (for example, an entity that previously prepared financial statements on a cash accounting basis does not record a deferred revenue obligation for any unsatisfied agreed performance at the transition date, because the revenue would have already been recorded in a previous period);
 - (d) elections to present changes in the fair value of investments in notable relationship entities, subsidiaries, associates and joint ventures and of financial assets within the scope of paragraph 10.2 in other comprehensive income – at the date of transition to this Standard, the entity may make the election permitted by another section of this Standard to present changes in the fair value of such classes of assets in other comprehensive income on the basis of the facts and circumstances that exist on that date, as though the date of transition was the date of initial recording of the first asset in the class;
 - (e) accounting for entity combinations, investments in associates and interests in joint arrangements – an entity may elect to apply Section 17 and Section 13 prospectively to all entity combinations and acquisitions of investments in associates and interests in joint arrangements from the date of transition to this Standard, or from a selected date before the transition date. However, the entity shall cease recording any goodwill relating to these acquisitions. The same date shall apply equally to all acquisitions;
 - (f) correction of prior period errors – an entity that becomes aware of an error in its financial statements for one or more prior periods may elect to correct that error by recording the cumulative effect of the correction against the relevant opening balances of assets, liabilities and items of equity on the date of transition to this Standard, without restating the information presented for prior periods. The entity need not distinguish corrections of prior period errors and changes in accounting policies in its first Australian-Accounting-Standards financial statements (Tier 3); and
 - (g) comparative information – the entity need not present comparative information in the notes for the information required by this Standard if it did not disclose that information in its most recent previous financial statements.

Disclosures

Explanation of transition to Tier 3 reporting requirements

- 28.13 An entity shall explain how the transition from its most recent previous financial statements to Tier 3 reporting requirements affected its reported financial position, financial performance and cash flows. This explanation shall include:
- (a) a description of the nature of each change in accounting policy; and
 - (b) in respect of an entity that applies paragraphs 9.10–9.11 to account for changes in accounting policies in its first Australian-Accounting-Standards financial statements (Tier 3) – the information required by paragraph 9.13, unless it is impracticable to do so. In this case, the entity shall disclose this fact.
- However, an entity whose most recent previous financial statements were special purpose financial statements need not disclose a description of the nature of each change in accounting policy.
- 28.14 If an entity uses one or more of the exemptions in paragraph 28.12, it shall disclose that fact.
- 28.15 An entity that did not prepare financial statements for the immediately preceding reporting period shall disclose that fact in its first Australian-Accounting-Standards financial statements (Tier 3).
- 28.16 An entity that is resuming application of Tier 3 reporting requirements shall disclose:
- (a) the reason it stopped applying Tier 3 reporting requirements;
 - (b) the reason it is resuming the application of Tier 3 reporting requirements; and
 - (c) whether it applied this section or Section 9 to its opening balances of assets, liabilities and items of equity on the date of transition.
- 28.17 Where comparative information has not been restated, an entity shall:
- (a) prominently label the comparative information that is not compliant with Tier 3 reporting requirements as being non-compliant with Tier 3 reporting requirements; and
 - (b) disclose the type of the most recent previous financial statements of the entity (eg special purpose financial statements, Australian-Accounting-Standards financial statements (Tier 1) or Australian-Accounting-Standards financial statements (Tier 2)).

Reconciliations

- 28.18 An entity that complies with the requirements in paragraphs 28.9–28.13 in preparing its first Australian-Accounting-Standards financial statements (Tier 3) may, but is not required to:
- (a) present reconciliations of its equity reported in its most recent previous financial statements to its equity determined under Tier 3 reporting requirements for both of the following dates:
 - (i) the date of transition to this Standard; and
 - (ii) if different, the end of the latest period presented in the entity's most recent previous financial statements; and
 - (b) include a reconciliation of the profit or loss reported in the entity's most recent previous financial statements to its profit or loss determined under Tier 3 reporting requirements for the same period.

Appendix A

Glossary of terms

Notes to Board members

The glossary of terms as exposed in ED 335 was updated for missing terms based on:

- feedback received from stakeholders on the Exposure Draft;
- reviewing the final IFRS for SMEs Standards issued in February 2025; and
- assessing or amending the definitions to align more closely with Tier 1/ Tier 2 terminology/defined terms as agreed by the Board at the 3 July 2025 Board meeting.

Staff also consider that where the terms are contained in the body and referred to in the glossary, not all of them are definitions but rather explanations. As such, staff have amended the explanation to refer to as 'set out' rather than 'defined'.

Staff have also reviewed the terms and amended the explanation/definition of certain terms on re-examination. The more substantial amendments include:

- Financial liability – staff added subparagraph (b) to the definition to align with the definition used in the IFRS for SMEs Standard, which more closely reflects the definition in AASB 132 *Financial Instruments: Presentation*. The IFRS for SMEs definition excludes from the definition the following: “The entity’s own equity instrument do not include puttable financial instruments that are classified as equity instruments, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the equity only on liquidation and are classified as equity instruments or instruments that are contracts for the future receipt or delivery of entity’s own equity instruments. Staff consider that it is unlikely that entities applying the Tier 3 Standard would settle or exchange financial instruments with their own equity instruments. Accordingly, this aspect of the financial liability definition has not been incorporated into the glossary. A similar omission is also reflected for financial assets as exposed in ED 335;
- Financial performance – staff note that the definition proposed in ED 335 only referred to performance and the explanation was drawn from the IFRS for SMEs Standard. However, staff have amended the definition to more closely align with paragraph 1.18 of the *Conceptual Framework for Financial Reporting* (Conceptual Framework). A similar amendment is made to the financial position to align with paragraph 1.12 of the Conceptual Framework; and
- Market participants – staff added to the definition in subparagraphs (a) and (b) to align with the defined term used in AASB 13 in view that the Board decided the definition of fair value measurement should be the same as Tier 2 requirements.
- Transaction costs – staff removed the term from the glossary as the description in paragraph 11.4 is not appropriate when regarding for example, transaction costs incurred as part of the acquisition of property, plant and equipment

This appendix is an integral part of the Standard.

accounting estimates	Monetary amounts in financial statements that are subject to measurement uncertainty.
accounting policies	As set out in paragraph 9.2.
acquiree	The business or businesses that the acquirer obtains control of in an entity combination.
acquirer	The entity that obtains control of the acquiree.
active market	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
amortisation	The systematic allocation of the depreciable amount of an intangible asset over its useful life.
associate	As set out in paragraph 13.4.
borrowing costs	Interest and other costs incurred by an entity in connection with the borrowing of funds.

carrying amount	The amount at which an asset, or liability or equity is recorded in the statement of financial position.
cash	Cash on hand and demand deposits.
cash equivalents	As set out in paragraph 6.2.
cash flows	Inflows and outflows of cash and cash equivalents.
class of assets	A grouping of assets of a similar nature or use in an entity's operations.
classification	The sorting of assets, liabilities, equity, income or expenses on the basis of shared characteristics for presentation and disclosure purposes.
close members of the family of a person	Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity, including: (a) that person's children and spouse or domestic partner; (b) children of that person's spouse or domestic partner; and (c) dependants of that person or that person's spouse or domestic partner.
compensation (in the context of Section 27: Related Party Disclosures)	Compensation includes all employee benefits (as defined in Section 23: <i>Employee Benefits</i>).
concessional loan	As set out in paragraph 10.10.
consolidated financial statements	As set out in paragraph 8.6.
constructive obligation	As set out in paragraph 19.6.
contingent asset	As set out in paragraph 19.16.
contingent liability	As set out in paragraph 19.13.
contingent rent	The portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time.
contract	An agreement between two or more parties that creates enforceable rights and obligations.
contractual interest rate	The rate that is specified in the loan agreement or other financial contract.
control (of an entity)	An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
costs of disposal	As set out in paragraph 22.8.
current replacement cost	As set out in paragraph 11.9(b).
customer	A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.
defined contribution plan	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
depreciable amount	The cost of an asset less its residual value.

derecognition	The removal of all or part of a recorded asset or liability from an entity's statement of financial position.
derivative	A financial instrument with all three of the following characteristics: (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'); (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; (c) it is settled at a future date.
development (in Section 16: <i>Intangible Assets</i>)	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, productions, processes, systems or services before the start of commercial production or use.
donation	The acquisition of an asset by the entity for a cost of nil, a nominal amount or another amount significantly less than the asset's fair value, or a forgiveness (wholly or partially) of a liability owed by the entity.
employee benefits	As set out in paragraph 23.1.
entity combination	A transaction or other event in which an acquirer obtains control of one or more entities or operating units. Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also entity combinations.
equity instrument	A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
exit price	As set out in paragraph 11.2.
fair presentation	As set out in paragraph 2.2
fair value	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.
financial asset	Any asset that is: (a) cash; (b) an equity instrument of another entity; (c) a contractual right: (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or (d) a contract that will or may be settled in the entity's own equity instruments and is: (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
financial instrument	As set out in paragraph 10.1.

financial liability	Any liability that is: (a) a contractual obligation: (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or (b) a contract that will or may be settled in the entity's own equity instruments and is: (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instrument for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all its existing owners of the same class of its own non-derivative equity instruments.
financial performance	The relationship of the income and expenses of an entity as reported in the statement of financial performance.
financial position	The relationship of the assets, liabilities and equity of an entity as reported in the statement of financial position.
financial statements	A structured representation of financial position, financial performance and cash flows of an entity.
financing activities	Activities that result in change in the size and composition of the contributed equity and borrowings of the entity.
first Australian-Accounting-Standards financial statements (Tier 3)	As defined in paragraph 28.1.
general purpose financial statements	Financial statements that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.
going concern	As set out in paragraph 2.6.
government	Government, government agencies and similar bodies whether local, national or international.
highest and best use	The highest and best use of a non-financial asset might provide maximum value to market participants through its use or in combination with other assets and liabilities (eg operating unit).
highly probable	Significantly more likely than probable.
impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
income taxes (for the purposes of this Standard)	All domestic and foreign taxes that are based on taxable profits. Income tax also includes taxes, such as withholding taxes, that are payable by a subsidiary, associate, joint arrangement or notable relationship entity on distributions to the reporting entity.
intangible asset	As set out in paragraph 16.2.
inventories	As set out in paragraph 12.1.

inventories held for distribution	Assets: (a) held for distribution at no or nominal consideration in the ordinary course of operations; (b) in the process of production for distribution at no or nominal consideration in the ordinary course of operations; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services at no or nominal consideration.
investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.
investment property	As set out in paragraph 14.2.
joint arrangement	As set out in paragraph 13.10.
joint control	As set out in paragraph 13.8.
key management personnel	Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
lease	A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
lease term	The non-cancellable period for which a lessee has the right to use an underlying asset, together with both: (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.
loans payable	Financial liabilities other than short-term trade payables on normal credit terms.
market participants	Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: (a) They are independent of each other, ie they are not related parties as defined in Section 27: <i>Related Party Disclosures</i>, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms. (b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary. (c) They are able to enter into a transaction for the asset or liability. (d) They are willing to enter into a transaction for the asset or liability, ie they are motivated but not forced or otherwise compelled to do so.
material	As set out in paragraph 2.15.
measurement uncertainty	As set out in paragraph 9.16.
minimum lease payments	The payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with: (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or (b) for a lessor, any residual value guaranteed to the lessor by: (i) the lessee;

- (ii) a party related to the lessee; or
- (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

modified retrospective approach)	As set out in paragraph 9.10.
net realisable value	The estimated selling price less costs to complete and sell.
non-controlling interest	The equity in a subsidiary not attributable, directly or indirectly, to a parent.
non-current assets held for sale	Non-current assets whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.
not-for-profit entity	A not-for-profit entity is an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.
notes (to the financial statements)	As set out in paragraphs 7.1–7.2.
notable relationship	As set out in paragraph 8.4.
notable relationship entity	As set out in paragraph 8.4.
observable inputs	Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.
offsetting (netting off)	Presenting an asset and liability recorded and measured as separate units of account as a single net asset or liability.
operating activities	The principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
operating unit	As set out in paragraph 17.4.
orderly transaction	A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (eg a forced liquidation or distress sale).
ordinary share	An equity instrument that is subordinate to all other classes of equity instruments.
other comprehensive income	Items of income and expense that are recorded outside profit or loss as required or permitted by this Standard.
owners	Holders of equity instrument of the entity.
owner-occupied property	Property held for use in the production or supply of goods or services or for administrative purposes.
parent	An entity that has one or more subsidiaries.
post-employment benefits	Employee benefits other than termination benefits and short-term employee benefits that are payable after the completion of employment.
prior period errors	As set out in paragraph 9.21.
probable	More likely than not.

profit or loss	The total of income less expenses, excluding the components of other comprehensive income.
property, plant and equipment	As set out in paragraph 15.2.
prospective application	Applying a new accounting policy to transactions, other events and conditions occurring after the date at which the policy is changed, and recognising the effect of a change in accounting estimate in the current and future periods affected by the change.
provision	As set out in paragraph 19.3.
public accountability	An entity has public accountability if: (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (.
record (recognise)	The process of capturing for inclusion in the statement of financial position or the statement(s) of financial performance an item that meets the definition of one of the elements of financial statements – an asset, a liability, equity, income or expenses. Recording (recognising) involves depicting the item in one of those statements – either alone or in aggregation with other items – in words and by a monetary amount, and including that amount in one or more totals in that statement.
recoverable amount	As set out in paragraphs 22.5 and 22.7
related party	A related party is a person or an entity that is related to the reporting entity : (a) A person or a close member of that person's family is related to a reporting entity if that person: (i) is a member of the key management personnel of the reporting entity or a parent of the reporting entity; (ii) has control or joint control over the reporting entity; or (iii) has significant influence over the reporting entity. (b) An entity is related to a reporting entity if : (i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); (iii) both entities are joint ventures of the same third entity; (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity; (v) the entity is controlled or jointly controlled by a person identified in (a); (vi) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity; or (vii) a person identified in (a)(ii) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity). (i)

related party transaction	As set out in paragraph 27.6.
relevant activities	The activities of the investee that significantly affect the investee's returns.
reporting date	The end of the current period covered by the financial statements.
reporting period	The period covered by the financial statements.
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
residual value	The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
revenue	As set out in paragraph 20.1.
separate financial statements	As set out in paragraph 8.30.
service potential	In respect of not-for-profit entities in the public or private sector, in pursuing their objectives, goods and services are provided that have the capacity to satisfy human wants and needs. Assets provide a means for entities to achieve their objectives. The potential to produce economic benefits is the essence of assets and is synonymous with the notion of service potential, and is used in the <i>Conceptual Framework for Financial Reporting</i> as a reference also to service potential. The potential to produce economic benefits can be described as the scarce capacity to provide benefits to the entities that use them in pursuing their objectives, and is common to all asset irrespective of their physical or other form.
significant influence	As set out in paragraph 13.5.
statement of cash flows	As set out in paragraph 6.1.
statement of comprehensive income	As set out in paragraph 4.8.
statement of changes in equity	As set out in paragraph 5.2.
statement of financial performance	As set out in paragraph 4.2.
statement of financial position	As set out in paragraph 3.1.
statement of income and retained earnings	As set out in paragraph 5.4.
statement of profit or loss	As set out in paragraph 4.2.
statement of profit or loss and other comprehensive income	As set out in paragraph 4.2.
Tier 3 entity	An entity that: (a) does not have public accountability; and (b) is not prohibited from applying Tier 3 reporting requirements by legislation or its constituting document or another document.
total comprehensive income	As set out in paragraph 4.3.
transferor	A transferor of cash or another asset to the entity such as:

- (a) a customer, who has contracted with the entity to obtain goods or services in exchange for consideration; or
- (b) a funding provider.

transport costs	The costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market. A principal market is the market with the greatest volume and level of activity for the asset or liability.
unobservable inputs	Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.
useful life	The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.
value in use	As set out in paragraph 22.9.

Question 9 to Board members

At the 20-21 November 2025 Board meeting, the Board decided that the effective date of the Tier 3 Standard would be annual reporting periods beginning or after 1 July 2029, with earlier application permitted. In Agenda Paper 5.1 at this meeting, staff are seeking the Board's decision to align the effective date of the amendments to the *Conceptual Framework for Financial Reporting* and other Australian Accounting Standards to extend their application to more NFP entities with that of this Standard.

On consideration of permitting entities to early adopt the Tier 3 Standard, staff note that the Board had not yet decided whether those entities should also be required to early adopt the amendments to the *Conceptual Framework*, including the removal of the availability of special purpose financial statements (SPFS) for more NFP entities. Staff consider there are two options for Board's consideration

- a) Option 1 – allowing entities to early adopt the Tier 3 Standard without also early adopting the amendments that will be set out in an Amending Standard resulting from ED 334 (refer Agenda Paper 5.1). This would mean some entities could apply Tier 3 reporting requirements now (including NFP private sector entities currently preparing Tier 2 GPFS) while other entities can continue preparing SPFS. However, this option undermines the Board's intention for developing the Tier 3 Standard to provide a proportionate response to its proposal to limit the ability of many NFP entities to prepare SPFS.
- b) Option 2 – allowing entities to early adopt the Tier 3 Standard only if the entity also early adopts the Amending Standard resulting from ED 334. This option may encourage earlier uptake of the amendments to the *Conceptual Framework* and aligns with the Board's intention for developing the Tier 3 Standard.

On balance, staff recommend Option 2 as the Tier 3 Standard was developed as part of the Board's broader strategy to simplify general purpose financial reporting for smaller entities while removing SPFS. Option 2 reinforces this direction and ensures that any early adopters are subject to the *Conceptual Framework*; rather than the *Framework for the Preparation and Presentation of Financial Statements* continuing to be the relevant concepts document for some entities.

Do Board members agree with the staff recommendation to permit early adoption of the Tier 3 Standard only if the entity also applies the Amending Standard resulting from ED 334 to the same period, as drafted in paragraph B1?

If not, what do Board members suggest?

Appendix B

Effective date

This appendix is an integral part of the Standard.

Effective date

- B1 An entity shall apply this Standard for annual reporting periods beginning on or after ... [1 July 2029]. Entities may elect to apply this Standard to annual periods beginning before ... [1 July 2029], provided that AASB 2026-X *Amendments to Australian Accounting Standards – Extending the Application of the Conceptual Framework and Limiting the Ability of Not-for-Profit Private Sector Entities to Prepare Special Purpose Financial Statements* is also applied to the same period. If an entity applies this Standard earlier, it shall disclose that fact.

Question 10 to Board members

Proposed paragraphs 26 and 27 of AASB 1053 exposed in ED 335 provided transitional provisions for entities transitioning from Tier 3 to Tier 2, being exemptions from: (a) restating comparative information, (b) providing comparative information if not previously disclosed, and (c) distinguishing the correction of errors from changes in accounting policies. These exemptions mirror the short-term relief in Appendix E of AASB 1053 for for-profit private sector entities that elected to adopt AASB 1060 early, except that the exemptions proposed for entities transitioning from Tier 3 to Tier 2 are intended to be long term, remaining available. At its October 2025 meeting, the Board decided not to restrict the availability of the transitional relief for NFP entities preparing financial statements that comply with Tier 2 Australian Accounting Standards – Simplified Disclosures to early adopters of the amending Standard as proposed in Appendix F of AASB 1053 in ED 334. Given that the exemptions in Appendix F are no longer short-term, staff consider it simpler that first-time adopters of the Tier 2 requirements transitioning from Tier 3 refer to proposed Appendix F of AASB 1053 (as reflected in the changes in Agenda paper 5.1). Therefore, staff have amended the proposed paragraph 27 of AASB 1053 that entities may apply some or all of the exemptions in Appendix F in its first Australian-Accounting-Standards financial statements (Tier 2), and deleted paragraph 28.

In addition, on review, staff note that the proposed provisions in ED 335 do not require entities applying these exemptions to disclose that fact. As the Board intended these exemptions to be similar to those given to for-profit private sector entities, staff recommend adding a similar requirement for NFP entities electing any exemptions in Appendix F to disclose that fact (as required by paragraph F2 of Appendix F). Staff also consider this disclosure would be simple to make and any additional cost would be marginal.

Do Board members agree with the staff recommendation that entities transitioning from Tier 3 to Tier 2, applying one or more exemptions in proposed Appendix F of AASB 1053, shall disclose that fact?

If not, what do Board members suggest?

Notes to Board members

At its 7 October 2025 Board meeting, the Board decided to finalise its proposed amendments to AASB 1053 *Application of Tiers of Australian Accounting Standards* as exposed in ED 335. However, staff have made amendments to that text of ED 335 to address stakeholder comments to reduce verbosity and improve the readability and clarity of the requirements, and to make technical and editorial corrections or improvements following further staff consideration of the Exposure Draft and AASB 1053.

The more significant changes to the proposed amendments to AASB 1053, without changing the Board's intended requirements, are:

- In paragraph 18E, sub-paragraphs (a) and (b) were deleted for brevity because they are unnecessary (i.e. merely explanatory);
- Paragraphs 19 – 19B were not previously exposed for amendment. However, the introduction of new paragraphs 25 and 26, providing guidance on moving between tiers (i.e. Tier 3 to Tier 1 or Tier 2), necessitated updates to scope out scenarios where an entity is moving from Tier 3 to Tier 1 (IFRS or non-IFRS) or Tier 2. Paragraphs 19 – 19B are not shown as marked up except for the amendments.
- Paragraphs 20B and 20C were renumbered as paragraphs 20A and 20B, reflecting that they are reapplication requirements that should be located together with other reapplication requirements, and before existing paragraph 20A. Existing paragraph 20A is renumbered as paragraph 20C (actioned in draft AASB 2026-X: refer Agenda Paper 5.1) and the proposed heading 'Reapplication of Tier 3 reporting requirements' in ED 335 is therefore unnecessary and so deleted;
- Paragraph 24 was included to address the accounting when an entity transitions from Tier 1 or Tier 2 reporting requirements to Tier 3 reporting requirements (not considered to be 'first time adoption of Australian Accounting Standards'). Paragraph 24 appears under the AASB 1053 heading 'Transition between Tiers'; and
- Paragraphs 25 and 26 are now depicted as black text, consistent with the equivalent AASB 1053.21 and 23.

Staff have also made changes to proposed amendments to AASB 1057 without changing the Board's intended requirements. The more significant change is to proposed paragraph 21A, which now specifies that entities applying AASB 10XX cannot ("may not") apply other Australian Accounting Standards, except as required by paragraph 1.5 of AASB 10XX. The previous drafting stated that entities were not required to apply other Standards, which does permit them to apply those Standards.

The Board decided at its 25 October 2025 meeting to finalise the proposed revisions to the flowcharts and transition scenarios presented in Appendices C and D of AASB 1053 proposed in ED 334. Staff have added Appendix C *Transition Charts* 1, 3 and 4 and Appendix D *Transition Scenarios* into this working draft as these tables include references to the Tier 3 Standard, which is issued subsequent to the Amending Standard resulting from ED 334 (albeit simultaneously). On further consideration, staff consider it more appropriate for the charts and scenarios to be included as consequential

amendments as part of issuing AASB 10XX. Additionally, while staff are still checking the consistency of Chart 4 and Appendix D to the 1053 requirements, staff have amended those charts and tables as follows to reflect the changes made as part of the Board's decision and further changes to the proposed amendments noted above, including:

- Chart 1 – removed # and † footnotes relating to reference to the effective date of AASB 20XX-X (together with removing related text *to reporting period beginning before [effective date*]* and the optional relief for NFP entities transitioning early from either Tier 1 or Tier 2 – Reduced disclosure Requirements to Tier 2 – Simplified Disclosures, for reporting period beginning before 1 July 2021 respectively. * footnote was removed as the Board decided at its 7 October 2025 meeting not to restrict the availability of the transitional relief for NFP entities preparing financial statements that comply with Tier 2 Australian Accounting Standards – Simplified Disclosures to early adopters of the amending Standard. † footnote was removed because staff consider this scenario will not apply to entities in most instances (it applies only to periods beginning before 1 July 2021). Chart 4 – the requirements for the scenario for Tier 3 GPFS moving to Tier 2 for the first time were updated to reflect the proposed requirements in paragraph 26 of AASB 1053. The requirement for the scenario for Tier 2 NFP entity currently preparing Tier 2 resuming Tier 1 would apply paragraph 21(b). The flowchart was amended to reflect that scenario, that is, AASB 1 do not apply (including AASB 108 option in AASB 1) and continue to apply the applicable recognition and measurement requirements..
- Transition Scenario Table 2 – The references to the applicable paragraphs and the related consequences have been updated to correct the paragraph citations. These corrections arose from staff's re-examination of the requirements, prompted by the editorial amendments that clarified the underlying requirements.

Appendix C

Amendments to other Australian Accounting Standards

This appendix sets out the amendments to other Australian Accounting Standards.

The amendments set out in this appendix apply to entities and financial statements in accordance with the application of the Standards set out in AASB 1057 *Application of Australian Accounting Standards*.

The amendments apply to annual reporting periods beginning on or after ... [1 July 2029]. If an entity applies this Standard to an earlier period, it shall also apply these amendments to that earlier period.

The amendments are made to the latest principal version of a Standard as subsequently amended, unless otherwise indicated. The amendments also apply, as far as possible and necessary, to earlier principal versions of the amended Standards if they apply when this Standard is applied for earlier periods.

This appendix uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this appendix do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

AASB 10 Consolidated Financial Statements (July 2015)

Paragraph AG1 in the Australian application guidance accompanying AASB 10 is amended.

- AG1 ... Australian Accounting Standards consist of ~~two~~ three Tiers of reporting requirements for preparing general purpose financial statements:
- (a) Tier 1: Australian Accounting Standards; ~~and~~
 - (b) Tier 2: Australian Accounting Standards – Simplified Disclosures; and
 - (c) Tier 3: Australian Accounting Standards – Simplified Accounting.

AASB 1053 Application of Tiers of Australian Accounting Standards (June 2010)

Paragraphs 7, 13, 16 and 19–19B are amended and paragraphs 9A, 16A–16D, 18E and 24–27 are added. Paragraphs 20A and 20B are added before the heading preceding paragraph 20C. A heading is added before paragraph 16A. Appendix C Chart 1 is renamed and replaced, and Chart 3 and Chart 4 are replaced. Appendix D is replaced.

- 7 Australian Accounting Standards consist of ~~two~~ three Tiers of reporting requirements for preparing general purpose financial statements:
- (a) Tier 1: Australian Accounting Standards; ~~and~~
 - (b) Tier 2: Australian Accounting Standards – Simplified Disclosures; and
 - (c) Tier 3: Australian Accounting Standards – Simplified Accounting.
- ...
- 9A Tier 3: Australian Accounting Standards – Simplified Accounting comprises simplified recognition, measurement, presentation and disclosure requirements for Tier 3 entities. The Tier 3 reporting requirements are set out in AASB 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*.
- ...
- 13 **Tier 2 reporting requirements shall, as a minimum, apply to the general purpose financial statements of the following types of entities:**
- (a) ...
 - (b) **not-for-profit private sector entities that do not apply Tier 3 reporting requirements; and**
 - (c) ...
- 16 Disclosures under Tier 2 reporting requirements are the minimum disclosures required to be included in general purpose financial statements of for-profit private sector entities, not-for-profit private sector entities and public sector entities that are prohibited from applying Tier 3 reporting requirements. Entities may include additional disclosures using Tier 1 reporting requirements as a guide if, in their judgement, such additional disclosures are consistent with the objective of general purpose financial statements.

Application of Tier 3 Reporting Requirements

- 16A **Tier 3 reporting requirements shall, as a minimum, apply to the general purpose financial statements of not-for-profit private sector entities that:**
- (a) **do not have public accountability; and**
 - (b) **are not prohibited from applying Tier 3 reporting requirements by legislation or their constituting document or another document.**
- These entities may elect to apply Tier 1 or Tier 2 reporting requirements in preparing general purpose financial statements.**
- 16B Entities applying Tier 3 reporting requirements would not be able to state compliance with IFRSs.
- 16C Whilst Tier 3 reporting requirements are available under this Standard for general purpose financial statements of the not-for-profit private sector entities referred to in paragraph 16A, regulators might exercise a power to require such entities to apply Tier 1 or Tier 2 reporting requirements.
- 16D Disclosures under Tier 3 reporting requirements are the minimum disclosures required to be included in general purpose financial statements of the not-for-profit private sector entities referred to in paragraph 16A. Entities may include additional disclosures using Tier 1 or Tier 2 reporting requirements as a guide if, in their judgement, such additional disclosures are consistent with the objective of general purpose financial statements.
- ...
- 18E **When applying Tier 3 reporting requirements for the first time, an entity shall apply the transitional requirements set out in Section 28 of AASB 10XX.**
- ...
- 19 **Subject to paragraphs 19A, ~~and~~ 21 and 25, an entity that:**
- (a) **has applied Tier 1 reporting requirements or IFRSs in a previous reporting period; but**
 - (b) **whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with Tier 1 reporting requirements³ or IFRSs; and**
 - (c) **is resuming or commencing the application of Tier 1 reporting requirements;**

- shall apply all the relevant requirements of AASB 1, or the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108 as if the entity had never stopped applying Australian Accounting Standards or IFRSs.
- 19A** An entity that is to claim IFRS compliance on resuming Tier 1 reporting requirements under paragraphs 19, 21(a) or 25 shall not use the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108 if it was not previously IFRS compliant.
- 19B** Subject to paragraphs 23 and 26, an entity that:
- (a) has applied Tier 2 reporting requirements⁴ in a previous reporting period; but
 - (b) whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with Tier 2 reporting requirements⁵; and
 - (c) is resuming the application of Tier 2 reporting requirements;
- shall:
- (d) apply all the relevant requirements of AASB 1, or the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108 as if the entity had never stopped applying Tier 2 reporting requirements, if the entity did not apply all applicable recognition and measurement requirements of Australian Accounting Standards; or
 - (e) not apply AASB 1, or the AASB 1 option for retrospective application of Australian Accounting Standards in accordance with AASB 108, if the entity applied all applicable recognition and measurement requirements of Australian Accounting Standards.
- ...
- 20A** Subject to paragraph 24, an entity that:
- (a) has applied Tier 3 reporting requirements in a previous reporting period; but
 - (b) whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with Tier 3 reporting requirements; and
 - (c) is resuming the application of Tier 3 reporting requirements;
- shall:
- (d) apply all the relevant requirements of Section 28 of AASB 10XX, or the option in Section 28 for retrospective application of AASB 10XX in accordance with Section 9 of that Standard as if the entity had never stopped applying Tier 3 reporting requirements, if the entity did not apply all applicable recognition and measurement requirements of AASB 10XX; or
 - (e) not apply Section 28 of AASB 10XX, or the option in Section 28 for retrospective application of AASB 10XX in accordance with Section 9 of that Standard, if the entity applied all applicable recognition and measurement requirements of AASB 10XX.
- 20B** Entities described in paragraph 20A(a)–(c) resume the application of Tier 3 reporting requirements effectively using the same approach as an entity would for first transitioning to Tier 3 reporting requirements, as set out in paragraph 18E. Accordingly, an entity that did not comply with Tier 3 reporting requirements due solely to omitting some disclosures, but otherwise continued to apply all applicable recognition and measurement requirements, is prohibited from applying the transitional requirements of AASB 10XX on returning to Tier 3 reporting requirements. Instead, it continues applying applicable recognition and measurement requirements, whether it had previously initially applied all the relevant requirements of Section 28 of AASB 10XX or the option in Section 28 for retrospective application of AASB 10XX in accordance with Section 9 of that Standard. However, if such an entity did not continue to apply all applicable recognition and measurement requirements of AASB 10XX in its most recent previous annual financial statements, that entity is required to apply the transitional requirements set out in Section 28 of AASB 10XX on resuming the application of Tier 3 reporting requirements.
- ...
- 24** An entity transitioning from Tier 1 or Tier 2 to Tier 3 shall not apply AASB 1. Instead, the entity shall apply the transitional requirements set out in Section 28 of AASB 10XX.
- 25** An entity transitioning from Tier 3 to Tier 1 for the first time shall apply AASB 1.
- 26** An entity transitioning from Tier 3 to Tier 2 for the first time shall, subject to paragraph 27, apply either:
- (a) all the relevant requirements of AASB 1; or

(b) Tier 2 reporting requirements directly using the requirements in AASB 108.

- 27 An entity transitioning from Tier 3 to Tier 2 for the first time may apply some or all of the exemptions in Appendix F in its first Australian-Accounting-Standards financial statements (Tier 2).

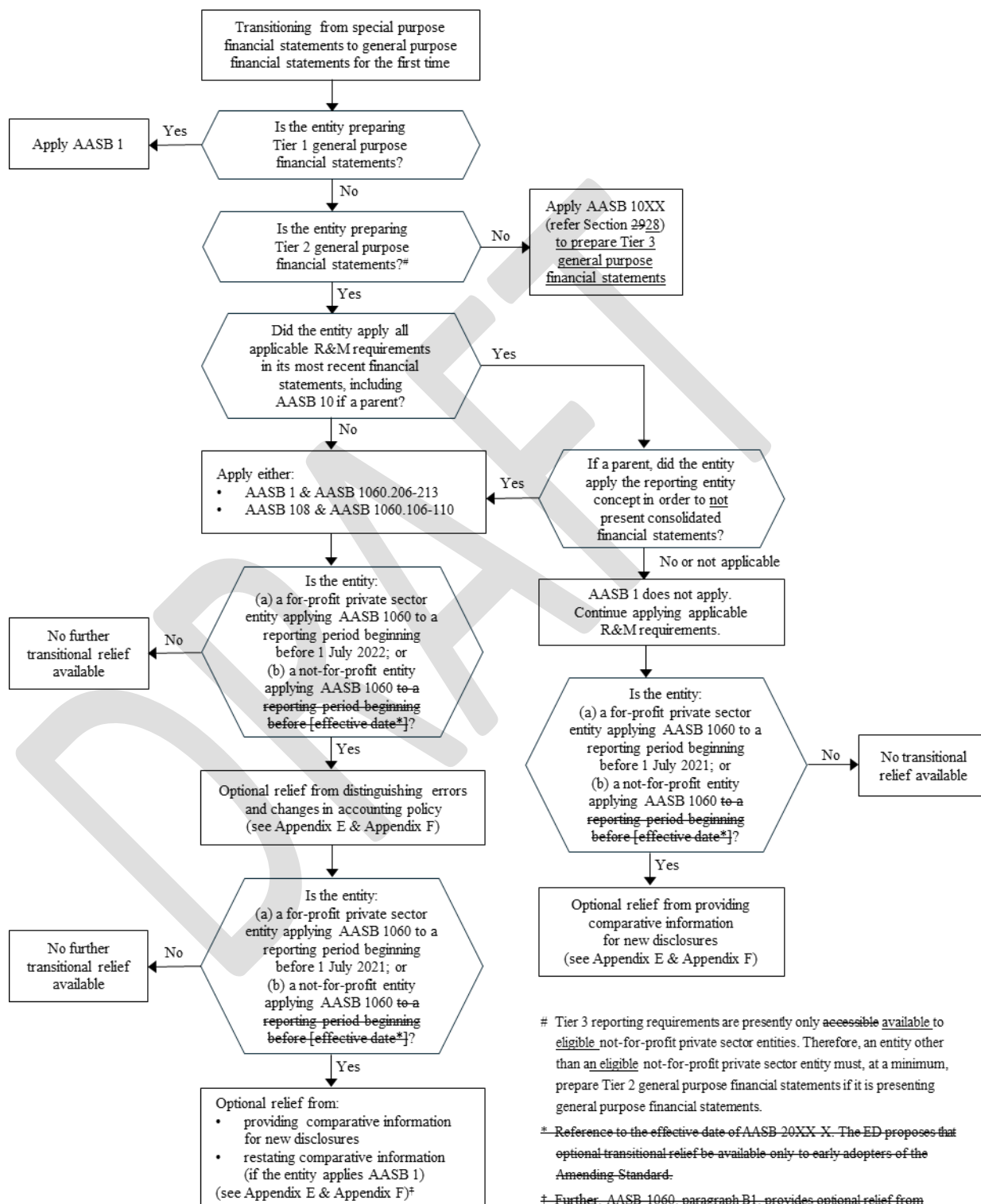
DRAFT

Appendix C Transition

...

Chart 1: First-time Adoption of Reporting Requirements

The following flowchart illustrates the requirements of paragraphs 18–18E of AASB 1053.



Tier 3 reporting requirements are presently only accessible available to eligible not-for-profit private sector entities. Therefore, an entity other than an eligible not-for-profit private sector entity must, at a minimum, prepare Tier 2 general purpose financial statements if it is presenting general purpose financial statements.

* Reference to the effective date of AASB 20XX X. The ED proposes that optional transitional relief be available only to early adopters of the Amending Standard.

† Further, AASB 1060, paragraph B1, provides optional relief from presenting comparative information for new disclosures for not-for-profit entities transitioning early from either Tier 1 or Tier 2—Reduced Disclosure Requirements to Tier 2—Simplified Disclosures, for reporting periods beginning before 1 July 2021.

...

Chart 3: Re-application of Tier 2 Reporting Requirements

The following flowchart illustrates the requirements of paragraphs 19B and 23 of AASB 1053.

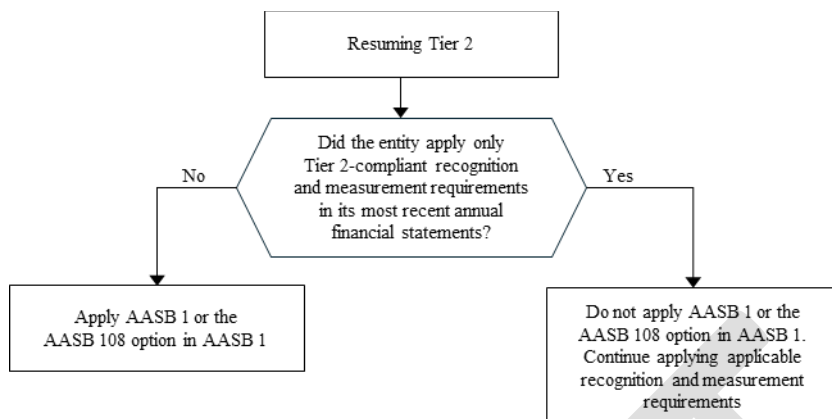
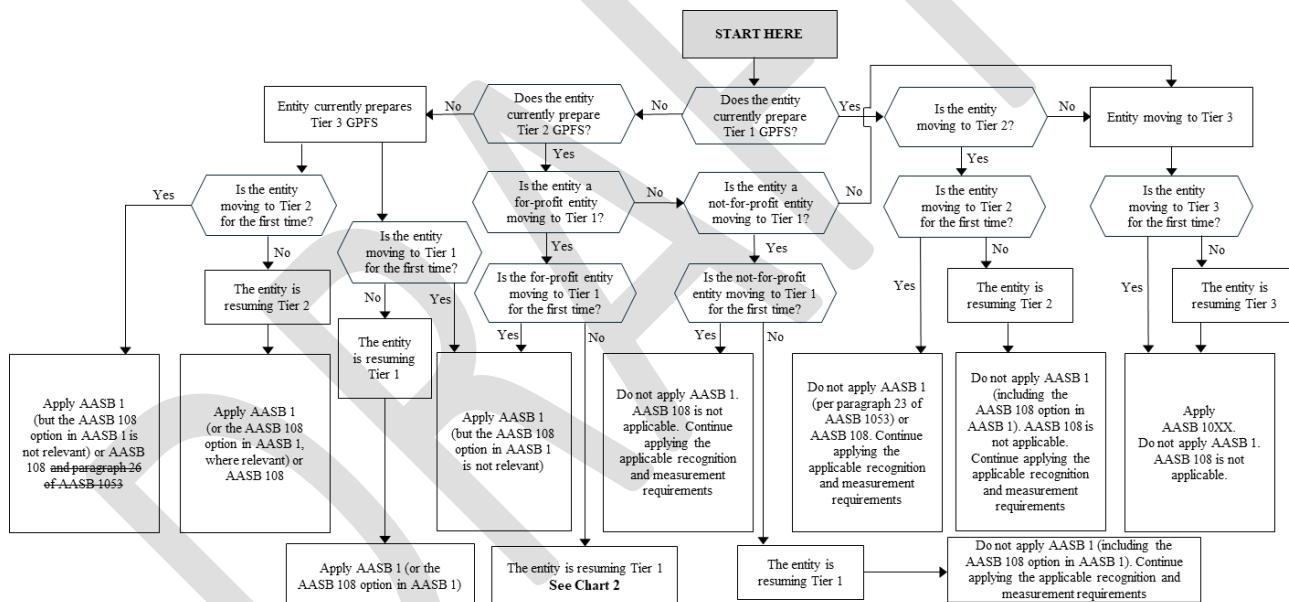


Chart 4: Moving between Tiers

The following flowchart illustrates the requirements of paragraphs 21 and 23–26 of AASB 1053.



Appendix D Transition Scenarios

This appendix accompanies, but is not part of AASB 1053. It summarises which paragraphs of AASB 1053 would apply in particular scenarios and whether the entity would apply AASB 1, AASB 108 or AASB 10XX.

Table 1: Entity transitioning to, or from, Tier 1 or Tier 2 general purpose financial statements (entity has never prepared Tier 3 general purpose financial statements)

A previous reporting period	The most recent previous reporting period	Current reporting period	Applicable paragraph of AASB 1053	Consequence
		<i>First time adopt T1</i>		
SPFS	SPFS using R&M	T1 IFRS	18	AASB 1
SPFS	SPFS using R&M	T1 non-IFRS	18	AASB 1
SPFS	SPFS not using R&M	T1 IFRS	18	AASB 1
SPFS	SPFS not using R&M	T1 non-IFRS	18	AASB 1
SPFS	T2	T1 IFRS	19A & 21(a)	AASB 1 (but not AASB 108 option in AASB 1)
SPFS	T2	T1 non-IFRS	21(b)	Not AASB 1

A previous reporting period	The most recent previous reporting period	Current reporting period	Applicable paragraph of AASB 1053	Consequence
		First time adopt T2		
SPFS	SPFS using R&M	T2	18A(c)	Not AASB 1
SPFS	SPFS not using R&M	T2	18A(a)	AASB 1 or directly through AASB 108
SPFS	T1 IFRS	T2	23	Not AASB 1
SPFS	T1 non-IFRS	T2	23	Not AASB 1
		Resume T1		
T1 IFRS	SPFS using R&M	T1 IFRS	19	AASB 1 or AASB 108 option in AASB 1
T1 IFRS	SPFS using R&M	T1 non-IFRS	19	AASB 1 or AASB 108 option in AASB 1
T1 IFRS	SPFS not using R&M	T1 IFRS	19	AASB 1 or AASB 108 option in AASB 1
T1 IFRS	SPFS not using R&M	T1 non-IFRS	19	AASB 1 or AASB 108 option in AASB 1
T1 IFRS	T2	T1 IFRS	21(a)	AASB 1 or AASB 108 option in AASB 1
T1 IFRS	T2	T1 non-IFRS	21(b)	Not AASB 1
T1 non-IFRS	SPFS using R&M	T1 IFRS	19A	AASB 1 (but not AASB 108 option in AASB 1)
T1 non-IFRS	SPFS using R&M	T1 non-IFRS	19	AASB 1 or AASB 108 option in AASB 1
T1 non-IFRS	SPFS not using R&M	T1 IFRS	19A	AASB 1 (but not AASB 108 option in AASB 1)
T1 non-IFRS	SPFS not using R&M	T1 non-IFRS	19	AASB 1 or AASB 108 option in AASB 1
T1 non-IFRS	T2	T1 IFRS	19A & 21(a)	AASB 1 (but not AASB 108 option in AASB 1)
T1 non-IFRS	T2	T1 non-IFRS	21(b)	Not AASB 1
		Resume T2		
T2	SPFS using R&M	T2	19B(e)	Not AASB 1 or AASB 108 option in AASB 1
T2	SPFS not using R&M	T2	19B(d)	AASB 1 or AASB 108 option in AASB 1
T2	T1 IFRS	T2	23	Not AASB 1 or AASB 108 option in AASB 1
T2	T1 non-IFRS	T2	23	Not AASB 1 or AASB 108 option in AASB 1

Legend:

SPFS: special purpose financial statements

R&M: recognition and measurement requirements in Australian Accounting Standards (Tier 1 and Tier 2)

T1: Tier 1 general purpose financial statements

T2: Tier 2 general purpose financial statements

IFRS: the financial statements contain an explicit and unreserved statement of compliance with IFRS Standards

non-IFRS: the financial statements do not contain an explicit and unreserved statement of compliance with IFRS Standards

Table 2: Entity transitioning to, or from, Tier 3 general purpose financial statements

A previous reporting period	The most recent previous reporting period	Current reporting period	Applicable paragraph of AASB 1053	Consequence
		First time adopt T1		
SPFS	T3	T1 IFRS	25	AASB 1
SPFS	T3	T1 non-IFRS	25	AASB 1
		First time adopt T2		
SPFS	T3	T2	26	AASB 1 or directly through AASB 108
T3	SPFS using R&M	T2	18A(c)	Not AASB 1
T3	SPFS not using R&M	T2	18A(a)	AASB 1 or directly through AASB 108
		First time adopt T3		
SPFS	SPFS using R&M	T3	18E	AASB 10XX
SPFS	SPFS not using R&M	T3	18E	AASB 10XX
SPFS	T1 IFRS	T3	24	AASB 10XX
SPFS	T1 non-IFRS	T3	24	AASB 10XX
SPFS	T2	T3	24	AASB 10XX
T1 IFRS	T2	T3	24	AASB 10XX
T1 non-IFRS	T2	T3	24	AASB 10XX
		Resume T1		
T1 IFRS	T3	T1 IFRS	25	AASB 1 or AASB 108 option in AASB 1
T1 IFRS	T3	T1 non-IFRS	25	AASB 1 or AASB 108 option in AASB 1
T1 non-IFRS	T3	T1 IFRS	19A & 25	AASB 1 (but not AASB 108 option in AASB 1)
T1 non-IFRS	T3	T1 non-IFRS	25	AASB 1 or AASB 108 option in AASB 1
		Resume T2		
T2	T3	T2	26	AASB 1 or directly through AASB 108

A previous reporting period	The most recent previous reporting period	Current reporting period	Applicable paragraph of AASB 1053	Consequence
		<i>Resume T3</i>		
T3	SPFS using T3 R&M	T3	20A(e)	AASB 10XX
T3	SPFS not using T3 R&M	T3	20A(d)	AASB 10XX
T3	T1 IFRS	T3	24	AASB 10XX
T3	T1 non-IFRS	T3	24	AASB 10XX
T3	T2	T3	24	AASB 10XX

Legend:

SPFS: special purpose financial statements

R&M: recognition and measurement requirements in Australian Accounting Standards (Tier 1 and Tier 2, unless identified as Tier 3 R&M)

T1: Tier 1 general purpose financial statements

T2: Tier 2 general purpose financial statements

T3: Tier 3 general purpose financial statements

IFRS: the financial statements contain an explicit and unreserved statement of compliance with IFRS Standards

non-IFRS: the financial statements do not contain an explicit and unreserved statement of compliance with IFRS Standards

AASB 1057 Application of Australian Accounting Standards (July 2015)

Paragraph 5 is amended and paragraphs 21, 21A and 26 are added.

- 5** Unless specified otherwise in paragraphs 5A–21A, Australian Accounting Standards apply to: ...
- ...
- 21** **AASB 10XX General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities** applies to not-for-profit private sector entities that:
- (a) do not have public accountability; and
- (b) are not prohibited from applying Tier 3 reporting requirements by legislation or their constituting document or another document.
- 21A** Entities applying AASB 10XX may not apply other Australian Accounting Standards except as required by paragraph 1.5 of AASB 10XX.
- ...
- 26** Interpretations do not apply to entities applying AASB 10XX.

Notes to Board members

Staff have re—examined the remaining illustrative examples and have made amendments to improve the readability, and to make technical and editorial corrections or improvements following further staff consideration:

- 1) As noted in Agenda Paper 10.2 at the November 2025 Board meeting, staff have reassessed Example C of ED 335 and considered it is not a viable example for assessing loss of service potential. Staff have developed a new example relating to the loss of service potential due to changed strategy.
- 2) At its 3 July 2025 Board meeting, the Board decided to finalise its proposed requirements for employee benefits as exposed in ED 335. However, staff have made amendments to Example D including:
 - a. staff noted some technical corrections necessary to make to Table 1, on aspects not related to long-service leave. However, on reflection that the main purpose for including the Example was to illustrate use of the probability-weighted expected value of all possible outcomes approach in estimating a long-service leave obligation, staff deleted Table 1 and made other changes to the Example to keep it focused on its main purpose. On-costs are still mentioned but are no longer presented as a significant aspect of Example D; and
 - b. acknowledge that adjustments to the opening balance of the leave provision will be required.
- 3) Examples E – H relating to recording revenue were amended to enhance understandability by clearly stepping through the scenarios and linking each step to the relevant requirements of Section 20. Upon staff's re-examination of the examples, staff noted that some of the original conclusion may require adjustments. For instance, Example H in ED 335 originally refer to the common understanding between the grantor and the entity, in exchange for receiving the grant, the entity would perform in a particular manner (construct a building extension). However, staff have amended the example to better reflect that the grant monies are required to be applied towards the construction of the specified building extension, which provides a more faithful representation of the fact pattern being depicted. Staff have also added two alternative scenarios relating to Example H for grants given towards future building works and grants given after the building extension is complete as part of testing the robustness of the revenue recognition requirements on those scenarios Example I was added as a result of the Board's decision at its 7 October 2025 Board meeting to include an illustrative example of a charity that raises donations for a specified appeal, but indicates that if greater funds are raised than needed for the intended purposes, the excess funds will be redirected an alternative charitable purpose.

Illustrative examples

These illustrative examples accompany, but are not part of, AASB 10XX. They illustrate aspects of AASB10XX, but are not intended to provide interpretative guidance.

- IE1 The following examples portray hypothetical situations. They are intended to illustrate how an entity might apply some of the requirements of this Standard to particular types of transactions, on the basis of the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern need to be evaluated when applying this Standard.

Assessing loss of service potential

- IE2 Examples A, B and C illustrate the requirements in Section 23 on assessing the loss of service potential and related measurement requirements in Section 12.

Example A – Loss of service potential due to spoilage

Entity A operates a food bank. It purchases items of food to be included in food parcels, and also receives donations of food from supermarkets and individuals. Because the amount of donations it receives is unpredictable, it can have a surplus of certain food items.

These food items might suffer a loss of service potential due to their age as they approach their expiry date. If Entity A has more items than are required for the food parcels, it might need to either sell the items at a discount or dispose of them once the expiry date has passed.

At the reporting date, Entity A must assess whether any of the events set out in paragraph 22.2 has occurred to any material inventories of its food items and whether the affected items have suffered a loss of service potential as a result.

At the reporting date, Entity A identifies its inventory includes a pallet of fresh food items that have passed their use-by date. In accordance with paragraphs 22.2 and 22.3, as the perishable items are considered spoilt, Entity A must determine the recoverable amount of those inventories.

These inventories held for distribution must be measured at their cost less any loss of service potential, being their recoverable amount. In accordance with paragraphs 22.5 and 22.6, Entity A estimates the amount of spoilt inventory that it will not be able to use in the food parcels (the loss of service potential) by reference to the assets' cost, as these items will need to be disposed of rather than sold at a discount. Entity A reduces the carrying amount of the inventories by the quantity identified as spoilt and records a corresponding expense.

There is no loss of service potential to record for donated inventory measured at a nil cost because the items' recoverable amount cannot be lower than their carrying amounts (nil).

At the reporting date, Entity A also identifies that it holds a pallet of tinned food items that it intends to distribute and that are nearing their best-before date. In accordance with paragraph 22.2, as the perishable items neither have spoilt nor become obsolete, Entity A does not identify and calculate any possible loss of service potential of these inventories. The inventory is not written down and, in accordance with paragraph 12.4(a), is carried at its cost in the statement of financial position.

Entity A further discovers that it has a pallet of surplus pantry staples that are nearing their best-before date. Entity A decides to sell these items at a discount, at which time the items cease to be inventory held for distribution. In accordance with paragraph 12.4, the carrying amount of these items no longer has regard to the items' loss of service potential. However, similar to inventory held for distribution, their recoverable amount is only estimated if one of the indicators of impairment in paragraph 22.2 is present. Because the perishable items neither have spoilt nor become obsolete, Entity A does not calculate the recoverable amount (selling price less costs to complete and sell) of these inventories. The inventory is not written down and is carried at its cost in the statement of financial position.

Example B – Loss of service potential due to reduction in external demand for goods or services

Entity B, which has the objective of helping long-term unemployed people find work, runs courses on job interview preparation. Entity B has prepared printed course materials that are provided to all participants, and has sufficient stock for the expected life of the current course. The course materials are classified as inventories held for distribution.

The courses are subsidised by the government, and as a result Entity B is able to offer the courses for no charge.

During the reporting period, as a result of a change of government policy, the courses cease to be subsidised by the government. Entity B has insufficient resources to cover all the costs itself, and introduces a small charge for the courses to cover the cost of hiring the venue and providing lunch. Because the small charge is for a nominal amount, Entity B continues to classify the course materials as inventories held for distribution.

Because of the introduction of the small charge, the number of interested participants reduces, and Entity B runs the courses less frequently. As a result, it is unlikely that Entity B will be able to use all the existing printed course materials.

At the reporting date, Entity B assesses whether any of the events identified in paragraph 22.2 has occurred to the course materials and whether the affected items have suffered a loss of service potential as a result.

Entity B notes that, as a consequence of the change in circumstances, it has suffered a reduction in external demand for its goods or services and the course materials' capacity to provide services may be affected adversely as a result (thus satisfying the indicator in paragraph 22.2(b)). As required by paragraphs 22.5 and 22.6, Entity B estimates the amount of the course materials that it will not be able to use, and adjusts the carrying amount of its inventories of course materials in proportion to the amount it estimates will remain unused, and records a corresponding expense.

Example C – Loss of service potential due to changed strategy

Entity C's mission is to help communities in need. Its activities include providing emergency relief supplies such as bottled water, canned food, and hygiene kits to communities affected by natural disasters. Entity C maintains a stockpile of these supplies to ensure rapid response capability.

Following a strategic review, Entity C's management decides to change its emergency response model from direct distribution to partnering with local organisations that already have supply chains in place to deliver

such emergency relief supplies. Consequently, moving forwards Entity C will no longer need to maintain an inventory of emergency relief supplies.

At the reporting date, Entity C must assess whether any of the impairment events identified in paragraph 22.2 have occurred and whether any remaining emergency relief supplies inventory is impaired as a result. Entity C identifies that the entity has changed its strategy but that its change in strategy is not in a way that might result in the inventory's capacity to provide services being adversely affected. This is because the capacity of the emergency relief supplies to deliver services has itself not changed as its inherent economic benefits are still present, even though those inventories are now excess to Entity C's needs. For example, Entity C could have, following its change in strategy, distributed that inventory to its new partner organisations for on-distribution. Consequently, Entity C determines that none of the impairment events identified in paragraph 22.2 is present and, therefore, does not assess further whether the inventory should be written down. The inventory remains carried at its cost to the entity.

Estimating the long service leave obligation

IE3 Example D illustrates application of the requirements in Section 23 to long service leave. The amounts and percentages in Example D are assumed for illustrative purposes only and neither indicate a single required method of calculation nor signify benchmark percentages for the probability of long-service leave benefits becoming unconditional to employees. .

Example D – Long service leave

Charity D has ten employees with varying years of service. In Charity D's jurisdiction, an employee becomes entitled to long-service leave once they complete 7 years of continuous employment. The long-service leave benefit is equal to 1/60th of ordinary pay per week for the total period of continuous employment, or 0.867 weeks of leave accrued per year.

When estimating the cost of long-service leave benefits, Charity D must take into account the likelihood that its employees are, or will become, entitled to long-service leave benefits. Charity D does this by estimating its long-service leave obligation by reference to the probability-weighted expected value of the possible outcomes of its ten employees.

Having regard to its experience with employee turnover, and future expectations, Charity D determines the probability that employees will become entitled to long service leave are as follows:

Years of service completed by the end of the reporting period	0	1	2	3	4	5	6	7+
Probability that long-service leave entitlements will vest(per cent)	50	60	70	80	85	90	95	100

Charity D applies these probabilities to estimate a probability-weighted salary for each employee for the purposes of calculating its long-service leave accrual for the period:

Employee name	Years of service completed by the end of the reporting period	Probability that employee becomes entitled to long-service leave	Salary at the reporting date (\$)	Probability-weighted salary (\$)
A	0	50%	70,000	35,000
B	0	50%	70,000	35,000
C	0	50%	65,000	32,500
D	2	70%	65,000	45,500
E	2	70%	60,000	42,000
F	4	85%	75,000	63,750
G	5	90%	70,000	63,000
H	5	90%	65,000	58,500
I	7	100%	90,000	90,000
J	12	100%	75,000	<u>75,000</u>

Total	<u>540,250</u>
Long service leave accrual ($\$540,250 \times 1/60$)	9,004

Charity D accrues long-service leave at 1/60th of each employee's probability-weighted remuneration at the reporting date, being \$9,004. In addition to the accrual for services rendered during the period, Charity D must reassess its opening long-service leave position and accrue further amounts as necessary to reflect changes in the probability of the leave becoming available to employees and changes in salary since the beginning of the period. For example, because Employee I is still employed by Charity D at the end of the reporting period, the probability that Employee I is entitled to the leave benefit has increased from 95 per cent to 100 per cent. Contrastingly, if Employee I had resigned during the period and before completing the required period of service, the opening leave accrual relating to Employee I would need to be reversed. Besides payments to employees, entities will often incur employment-related costs such as workers' compensation insurance premiums and payroll taxes. Liabilities and expenses for employee on-costs are recorded when required by this Standard. For example, if Charity D is subject to payroll tax, it must determine whether a liability is recordable for payroll tax associated with its future long-service leave obligations at the same time as recording the leave accrual.

Recording revenue

IE4 Examples E–I illustrate the requirements in Section 20 for revenue arising from:

- (a) fundraising activities;
- (b) grants to provide specified services;
- (c) grants that management has designated to fund particular services;
- (d) grants to construct assets; and
- (e) donations to an emergency appeal.

Example E – Fundraising activities

Charity E generates revenue through two main fundraising activities: selling chocolates for cash throughout the year and an annual gala event at which attendees receive entertainment and a meal. The next gala event will be held on 15 July 20X0. The ticket to the gala event, as publicised on Charity E's website and printed on the ticket, provides an entry to the gala event, dinner and an evening of entertainment. As at 30 June 20X0 (Charity E's reporting date), Charity E has received \$50,000 from the sale of 250 tickets for \$200 each.

In accordance with paragraph 20.3(a), Charity E records revenue from the sale of chocolates when the chocolates are transferred to customers, as the parties' common understanding of Charity E's commitment in the transaction (to deliver chocolates in exchange) is fulfilled at this time. Where chocolates are transferred immediately at the time of a sale, Charity E will record revenue at the same time as it records the cash receipts from the sales. Charity E discloses revenue from the sales of chocolates in accordance with paragraph 20.21(d) in its financial statements for the financial year ending 30 June 20X0.

In accordance with paragraphs 20.3(a) and 20.4, in its financial statements for the year ending 30 June 20X0, Charity E records the \$50,000 proceeds from sales of tickets to the gala event as a deferred revenue obligation (liability). This is because Charity E and purchasers of the tickets to the gala event have a common understanding, evidenced by writing on Charity E's website and printing on the tickets that in return for the ticket price Charity E will host, after the end of the reporting period, a gala event that includes entertainment and a meal. That common understanding exists regardless of whether Charity E has an enforceable obligation against it to run a gala event that includes all the publicised aspects.

As at 30 June 20X0, the entire amount of the sales proceeds is deferred as a current liability until the gala event is held, since the gala event is to be held within the next 12 months (ie 15 July 20X0). As required by paragraph 20.26, Charity E discloses that it has a deferred revenue obligation of \$50,000 that will be satisfied on hosting the gala event.

In accordance with paragraphs 20.5 and 20.8, the deferred revenue obligation is reduced to nil (and revenue is recorded in profit or loss) when the gala event is held on 15 July 20X0.

Example F – Grant to provide specified services

Community Centre F applies for a grant to fund the delivery of IT training sessions for community members. The training sessions will be conducted at regular intervals on the centre's premises over a two-year period

commencing 1 July 20X1. The number of sessions that will be delivered is dependent on the amount of the grant received.

A grant of \$45,000 is received on 15 May 20X1. Community Centre F estimates that each IT training session will cost \$2,500 to run. This would allow Community Centre F to deliver 18 IT training sessions for community members during the two-year period. In accordance with paragraphs 20.3(a), a deferred revenue obligation (liability) is recorded for the entity's unsatisfied commitment to provide training sessions on becoming entitled to the grant monies. This is because Community Centre F and the grantor have a common understanding, evidenced by the approved grant application, that Community Centre F will use the received grant monies to provide training sessions (ie perform in a particular manner). That common understanding exists regardless of whether Community Centre F has an enforceable obligation against it to use the funds to provide training sessions.

In accordance with paragraph 20.4, the liability recorded in accordance with paragraph 20.3(a) is measured at \$45,000, being the same amount as the asset (grant monies). In accordance with paragraph 20.5, the liability is reduced only when, or as, the commitment is satisfied.

Having regard to paragraph 20.8, Community Centre F determines that its commitment is to deliver training sessions, and that commitment will be satisfied as it delivers each IT training session. As at 30 June 20X1, Community Centre F continues to reflect a liability of \$45,000 attributable to the grant, because the provision of training sessions had not yet commenced. As Community Centre F expects to deliver the training sessions at regular intervals over the two year period, in accordance with paragraph 20.27, it classifies \$22,500 of the deferred revenue obligation as a current liability and the remaining \$22,500 as a non-current liability. In accordance with paragraph 20.5, the deferred revenue obligation is reduced and revenue is recorded as the training sessions are provided.

As at 30 June 20X2, Community Centre F had delivered nine IT training sessions. Accordingly, in its financial statements for the financial year ending 30 June 20X2, it records revenue of \$22,500 and a remaining current liability of \$22,500 for the unperformed portion of the commonly understood commitment (being the nine IT training sessions yet to be delivered). As required by paragraph 20.26, Community Centre F discloses that its deferred revenue obligation will be satisfied as it delivers the remaining nine IT training session. .

Example G – Grant internally designated to fund particular activities

Community Centre G receives a general purpose grant of \$40,000 on 5 May 20X1. The general purpose grant does not specify a time period over which the grant must be spent. Community Centre G's management decides before its financial year end 30 June 20X1 to expend the grant monies on a two-year financial literacy training programme to be conducted on the Centre's premises for its beneficiaries. The programme will commence on 1 July 20X1.

Community Centre G and the grantor do not have a common understanding that, in return for the grant, Community Centre G will perform in a particular manner resulting in the related transfer or using up of the grant money or other assets. This is because an entity's internal expectations or decisions by those charged with governance about how or when an entity expects to use funds received are, by themselves, not sufficient to establish whether the parties have a common understanding that the entity will perform in a particular manner (see paragraph 20.13). In this example, the grantor is not aware that the grant monies are to only be spent on delivering a two-year financial literacy training programme.

Therefore, in accordance with paragraph 20.3, a deferred revenue obligation is not recorded on receipt of the grant asset (cash) on 5 May 20X1. Rather, in accordance with paragraphs 20.3(b) and 20.4, on 5 May 20X1 Community Centre G records revenue at the same time as it records its receipt of the grant monies, for the same amount (\$40,000). As required by paragraph 20.21(c), Community Centre G discloses the grant revenue of \$40,000 grouped with other similar donations and grants.

Example H – Grant to construct an asset

Community Centre H applies for a capital grant of \$180,000 to fund most of the cost of constructing an extension to its community hall building, with the remainder of the cost to be met using the Centre's accumulated funds. The grant of \$180,000 is received on 30 June 20X2.

In accordance with paragraph 20.3(a), a deferred revenue obligation (liability) is initially recorded to reflect the entity's unsatisfied commitment to use the grant monies towards the construction of a building extension. This is because Community Centre H and the grantor have a common understanding, evidenced by the approved grant application, that Community Centre H will apply the grant monies received towards the construction of the specified building extension (ie perform in a particular manner). That common understanding exists regardless of whether Community Centre H has an enforceable obligation against it to use the grant monies only to construct the building extension.

In accordance with paragraph 20.4, the liability recorded in accordance with paragraph 20.3(a) is initially measured at the same amount as the amount recorded for the grant money (\$180,000). In accordance with paragraph 20.3, the grant is deferred as a liability until the commitment is satisfied. The liability is reduced in a manner that faithfully represents the amount and pattern of the entity's satisfaction of its commitment.

On consideration of the terms and conditions of the grant, Community Centre H decides that its commitment to the grantor will be satisfied as the grant money is applied towards the construction of the building extension, rather than on the delivery of a completed extension or as the extension is built. In its financial statements for the financial year ending 30 June 20X2, Community Centre H records a liability for \$180,000 for the capital grant for the extension of its community hall building in accordance with paragraph 20.3, because it had not yet commenced construction of the building. Community Centre H expects it will use up forty percent of the grant monies within twelve months after the reporting date, and accordingly, Community Centre H classifies \$72,000 of the grant as a current liability, and the remaining \$108,000 as a non-current liability.

By 30 June 20X3, Community Centre H has spent \$90,000 of the grant monies on the building extension. Accordingly, in its financial statements for the financial year ending 30 June 20X3, Community Centre H records revenue (categorised as grants for the construction of long-lived assets in accordance with paragraph 20.21(b)) of \$72,000. In accordance with paragraph 20.26, the remaining carrying amount of the liability of \$108,000 – representing the remaining grant money to be applied towards the community hall building – is classified as a current liability as Community Centre H expects to spend the remaining grant money within the next twelve months after 30 June 20X3.

Alternative scenario 1: Grant is given towards future building works

Assume instead that Community Centre H is provided with a grant to help fund the purchase of a site and construction of a new building, but that an appropriate site had not yet been identified or acquired at the time the grant was made and the grant funds transferred to Community Centre H. In this scenario, Community Centre H has a common understanding with the grantor that the monies are to be used for capital works. In accordance with paragraph 20.3, Community Centre H will record the grant funds as a deferred revenue obligation because Community Centre H and the grantor have a common understanding that the grant funds will be applied to purchasing a site and constructing a new building. In accordance with paragraph 20.5, the carrying amount of the deferred revenue obligation will be reduced and revenue would be recorded once (or as) the commitment is satisfied. Community Centre H will need to apply judgement, having regard to the terms and conditions of the grant, to determine when and how its commitment is satisfied. For example, whether this is from when the search for a site begins or only from when a site is identified and purchase activity has commenced. The pattern of the entity's satisfaction of the commitment might be determined to be as ringfenced grant funds are expended, evenly over the acquisition and build period, by reference to the stage of completion of any building works, or after the building is completed.

Alternative scenario 2: Grant is given after the building extension is complete to help alleviate the costs of capital works

Assume instead that Community Centre H has funded the building extension works itself by taking out a bank loan. After the building extension is complete, Community Centre H receives a grant intended to help alleviate the costs of these capital works. Community Centre H intends to apply the grant monies received to pay down some of its outstanding bank loan. However, it could have equally used these monies to fund a new program that it would not otherwise have been able to run due to the need to fund the loan repayment.

In this scenario, Community Centre H has a common understanding with the grantor that the monies are to be used towards defraying the costs of the building extension. In accordance with paragraphs 20.3 and 20.5, the entity has a deferred revenue obligation and should reduce that obligation in a manner that faithfully represents the amount and pattern of the entity's satisfaction of its commitments. However, the building works are already completed and the entity's decision to use the monies received to repay its loan is an internal management decision. Even though the parties share a common understanding about the purpose of grant received, the grant was given to, in effect, support the entity's operations over an unspecified period of time. Therefore, per paragraph 20.12, Community Center H records grant revenue simultaneously with receiving the grant monies.

Example I – Donations to an emergency appeal

Charity I announced an appeal for donations to provide emergency relief to victims of a cyclone on 20 February 20X1 and raised \$200,000 in response. On its website, Charity I indicated that if greater funds are raised than needed for its cyclone emergency relief efforts, the excess funds will be redirected to another current specific program of the charity to assist victims of a recent earthquake in the same region.

On 15 June 20X2, Charity I announced that its emergency relief program for the cyclone is complete. Charity I spent \$150,000 of the donated funds on that program. At 30 June 20X2, none of remaining \$50,000 donated funds had been spent by Charity I.

In its financial statements for the financial year ending 30 June 20X2, Charity I records donation revenue of \$150,000 in accordance with paragraph 20.5 for the expenditure of that amount in providing emergency relief to victims of the cyclone. In accordance with paragraph 20.3, the entity also records a deferred revenue obligation (liability) of \$50,000 relating to the unspent donations redirected towards the earthquake assistance program. Charity I expects it will use the unspent donations within twelve months after the reporting date. Accordingly, Charity I classifies the deferred revenue obligation of \$50,000 as current liability.

The fact that Charity I will no longer spend funds donated primarily to provide emergency relief for victims of the cyclone on these efforts does not mean that there is no longer an unsatisfied common understanding between the donors and Charity I on 30 June 20X2 regarding the use of the funds. This is because, as evidenced by the communicated appeal terms, Charity I and the donors have a common understanding that Charity I will use the donations received to provide charitable assistance to victims of either the cyclone or the earthquake (ie perform in a particular manner). That common understanding exists regardless of whether Charity I has an enforceable obligation against it to expend the donated funds on either of the stated programs.

In accordance with paragraphs 20.5 and 20.8, the deferred revenue obligation of \$50,000 is reduced and revenue recorded as the remaining donated funds are expended on the specific earthquake assistance program.

If Charity I did not indicate how it would spend any excess funds raised, then there is no common understanding between the parties as to how any monies not directed towards the cyclone efforts must be spent. In this scenario, in accordance with paragraphs 20.3 and 20.4, Charity I would record the entire \$200,000 received as revenue of the financial year ending 30 June 20X2.

Contingent assets

IE5 Example J illustrates the application of Section 19 to contingent assets in the form of pledges.

Example J – Pledges

Before the end of the reporting period, Charity J received written pledges from corporate donors of \$200,000 to fund the building of water wells to provide clean drinking water in developing countries in response to an appeal for donations for that explicit purpose. Based on its previous experience with pledged donations, Charity J estimates it will receive \$120,000.

As at the end of the reporting period, no cash had been received, and Charity J does not have an enforceable right to the pledged amounts.

In accordance with paragraph 20.18, Charity J does not record the pledged donations as an asset because it has not yet received the promised cash. However, Charity J determines the pledges meet the definition of a contingent asset, because those amounts are possible assets arising from past events (receipt of the written pledges), the existence of which will only be confirmed by the occurrence of one or more uncertain future events (cash transfer to Charity J) not wholly within Charity J's control.

Based on its experience with previous appeals, Charity J concludes that the receipt of an inflow from the pledged donations is probable even if some pledges are not honoured. Accordingly, in accordance with paragraph 19.17, Charity J discloses the pledges as a contingent asset and that its estimate of the amount that will be received is \$120,000.

(When received, the donations that were pledged are recorded as revenue only as the wells are built. This treatment recognises that, because the donations were made in response to the specific appeal, Charity J and its donors have a common understanding that Charity J will only use these amounts for the building of the water wells, consistent with paragraphs 20.3(a) and 20.6–20.10 of AASB 10XX.)

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 10XX General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities.

Introduction

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in this Exposure Draft (ED). It sets out the reasons why the Board developed the ED, the approach taken to developing the ED and the bases for key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

The need for a new Standard for not-for-profit private sector Tier 3 entities

- BC2 At present, entities that are required to prepare financial statements in accordance with Australian Accounting Standards (AAS) have a choice of two Tiers:
- (a) Tier 1 reporting requirements apply to the general purpose financial statements (GPFS) of for-profit private sector entities that have public accountability and the Australian Government and State, Territory and Local Governments; and
 - (b) Tier 2 reporting requirements apply to the GPFS of for-profit private sector entities that do not have public accountability, not-for-profit (NFP) private sector entities and public sector entities, whether for-profit or NFP, other than the Australian Government and State, Territory and Local Governments.
- BC3 However, NFP entities may self-assess that they are not a ‘reporting entity’ as defined in SAC 1 *Definition of the Reporting Entity*, and therefore elect to prepare special purpose financial statements (SPFS). The AASB has received stakeholder feedback and collected evidence indicating that the reporting entity concept, long embedded in the Australian accounting framework, was not working as originally envisaged. Rather, there remains a large population of Australian entities preparing SPFS, rather than GPFS (which facilitate the comparability of financial reporting for entities in similar economic circumstances). Research has indicated a mismatch between users’ needs and the information reported by non-corporate and small entities. Where charities prepared SPFS, research has shown that only 26% of charities sampled stated compliance with recognition and measurement (R&M) requirements of AAS, leading to a lack of comparability between charities in financial reporting.¹ Considering resource limitations and noting that recommendations arising from the 2017-2018 review of Australian Charities and Not-for-profits Commission (ACNC) legislation were likely to inform the Board’s work on the NFP private sector, the Board in 2018 decided to progress its Australian financial reporting framework project in stages, beginning first with the review and revision of the reporting framework for for-profit private sector entities.
- BC4 In 2018, the Board published Invitation to Comment ITC 39 *Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* (May 2018). ITC 39 was intended to improve the quality of financial statements of both for-profit and NFP entities through Board actions to extend the population of entities preparing GPFS. The work on for-profit private sector entities was completed with the issue of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) and AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (March 2020). The outcome of that stage of the Board’s project was to require many for-profit entities required by legislation or their constituting document or another document to prepare GPFS that comply with AAS.
- BC5 Following the completion of the financial reporting framework for for-profit private sector entities, the Board has developed proposals in Exposure Draft ED 334 *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* to respond to stakeholder concerns and research findings regarding the

¹ AASB Research Report 11 *Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities* (August 2019) examined 407 large and medium-sized charities, drawn from a population of 5,674 charities, that claimed to lodge SPFS for the 2016 financial year. AASB Research Report 16 *Financial Reporting By Non-Corporate or Small Entities (Public Sector Entities, Private Sector SMEs, Not-for-Profits including Charities and Non-Government Organisations)* (April 2021) presented an overview of the academic literature on financial reporting by non-corporate and small entities with the objective of answering key questions about the coverage of their reports, their user and stakeholder needs, and their compliance and regulatory oversight.

subject matter of its title. ED 334 proposes extending the application of AAS to a wider range of NFP entities and no longer predicated the applicability of a Standard on an entity's identification as a reporting entity. ED 334 proposes:

- (a) amendments to AAS to remove the ability of the following NFP entities to prepare SPFS:
 - (i) NFP entities that are required by legislation to comply with either AAS or 'accounting standards'; and
 - (ii) other NFP entities that are only required by their constituting document or another document to comply with AAS (provided that the relevant document was created or amended on or after [date]); and
- (b) to provide relief from restating and presenting comparative information in the year of transition for NFP entities transitioning to Tier 2 reporting requirements for the first time, to balance appropriately the needs of users of financial statements with the costs of moving from SPFS.

BC6 In addition, following feedback on ITC 39, the Board became aware that it may be necessary to develop one or more further reporting tiers (sets of accounting requirements) for use by NFP private sector entities. The Board recognises that there is likely to be a larger population of smaller NFP private sector entities that are required to prepare GPFS, compared to for-profit private sector entities, because the relevant legislation often sets a lower threshold to require NFP private sector entities to prepare financial statements that comply with the requirements specified by AAS. Consequently, the Board decided there is a need to develop a further reporting tier for NFP private sector entities concurrently with superseding the SAC 1 reporting entity concept for NFP private and public sector entities. This further reporting tier will serve as a proportionate response for smaller entities, with less complex transactions and other events, that are required by legislation or otherwise (such as by a constituting document) to prepare financial statements that comply with AAS.² This ED has been developed in conjunction with ED 334 to:

- (a) reduce the reporting burden of smaller NFP private sector entities, for which the existing Tier 1 and Tier 2 reporting requirements for preparing GPFS may be overly complex to apply; and
- (b) continue to complement other Government red tape reduction initiatives to reduce the financial reporting burden for entities.

BC7 In October 2022, the Board issued Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* (DP) setting out, and inviting comments on, its preliminary views about an additional (third) tier for use by NFP private sector entities, being Tier 3 GPFS, and the key features of that further reporting tier (Tier 3 Standard). The Board took the view in the DP and in this ED that as a standard-setter its role is not to, nor does it have the ability or legislative power to, develop financial reporting thresholds in AAS because it views the establishment of appropriate reporting thresholds and any application of a specific form of GPFS to be more appropriately within the remit of the relevant legislation or regulatory authority. Ultimately, the Board developed its proposals for the Tier 3 Standard based on the revised ACNC 'medium' size charities (revenue of \$500,000 to less than \$3 million) as a reference point for identifying transactions and balances of smaller NFP private sector entities that might be permitted to prepare Tier 3 GPFS (Tier 3 entities). However, basing the proposals on ACNC 'medium-size' charities was not intended to act as any financial reporting thresholds to be included in AAS. The key features of that further reporting tier are reporting requirements that are simpler to understand and apply than existing reporting requirements. The Board reached its preliminary views on the form and key accounting aspects of a further tier of general purpose financial reporting for NFP private sector entities by considering how it could contain or reduce preparer compliance costs while making financial statements more useful to users. In doing so, the Board considered how it might depart from existing AAS through simpler expression, R&M requirements and approaches to presentation and disclosure.

Principles and considerations applied in developing the Tier 3 reporting requirements

BC8 In developing the Tier 3 GPFS framework, the Board used a set of principles to make the new Tier 3 Standard meet the aims in paragraph BC7 for a simplified Standard for NFP private sector Tier 3 entities, treating 'user needs' and 'cost/benefit' as overarching considerations in applying the following principles:

- (a) the development of Tier 3 reporting requirements is subject to the *AASB Not-for-Profit Entity Standard-Setting Framework*;

² See AASB Research Report 10 *Legislative and Regulatory Financial Reporting Requirements* (September 2022) identifying the private sector and public sector NFP entities with financial reporting obligations under Federal and State/Territory legislation required to prepare financial statements complying with AAS.

- (b) Tier 3 financial statements are GPFS. As such, Tier 3 financial statements need to provide useful financial information to users of the financial statements;
 - (c) consistency with the accounting principles specified by Tier 2: Australian Accounting Standards – Simplified Disclosures is desirable, but might not always be warranted, since Tier 3 reporting requirements are being developed as a proportionate response to the costs incurred by certain entities while still meeting the needs of users of the financial statements for this cohort of entities. For example, opportunities for departure from Tier 2 accounting principles that could give a similar outcome to users of the financial statements while reflecting an appropriate cost/benefit balance could include disclosure requirements instead of a Tier 2 measurement requirement or an approach of specifying minimum ‘prescriptive’ disclosures;
 - (d) where possible, leverage the information management uses to make decisions about the entity’s operations. The ability to leverage information management uses is made within the context of the Board’s conceptual framework relevant to NFP entities and user needs and cost/benefit considerations, and the objective of Tier 3 reporting requirements fostering comparability of information across entities that apply them; and
 - (e) developing reporting requirements that do not impose disproportionate costs for preparers when compared to the benefits of that information for users of financial statements.
- BC9 The Board also decided, to the extent consistent with the principles for developing the Tier 3 R&M requirements noted in paragraph BC8, the following approach to developing Tier 3 disclosure requirements:
- (a) for transactions and other events where there is an R&M difference between Tier 3 and Tier 1 or Tier 2 reporting requirements, Tier 3 reporting requirements will:
 - (i) adopt appropriate disclosure requirements from other jurisdictions or frameworks with comparable R&M requirements; or
 - (ii) develop fit-for-purpose disclosure requirements (eg using the existing disclosure requirements for topics whose requirements could be analogised to the Tier 3 topics as a base to develop fit-for-purpose Tier 3 disclosures) if there are no comparable R&M requirements in other jurisdictions or frameworks; and
 - (b) for transactions where the Tier 3 R&M requirements are the same or similar to the corresponding Tier 2 R&M requirements, disclosure requirements in AASB 1060 will be used as a starting point, with further consideration of simplification that may be appropriate.
- The Board also considered that, except for transactions or other events with differences from Tier 2 R&M requirements noted in paragraph BC9(a), the disclosure requirements in AASB 1060 should act as the point of reference for possible Tier 3 disclosure requirements to ensure internal integrity and consistency of Tier 3 reporting requirements.
- BC10 In considering the proposed Tier 3 reporting requirements, the Board had regard to the reporting requirements applying to smaller NFP private sector entities in several other jurisdictions. The selected other jurisdictions were considered based on the international pronouncements compared in the AASB Staff Paper *Comparison of Standards for Smaller Entities* that were reviewed in AASB Research Report No. 5 *Financial Reporting Requirements Applicable to Charities* (October 2017) to evaluate the different approaches that already exist for particular areas of financial reporting for the purpose of developing the Tier 3 reporting requirements.
- BC11 The Board also considered the requirements in other jurisdictions and frameworks and the degree of their consistency with Tier 2 requirements, primarily in the *IFRS for SMEs*, complemented by the International Non-Profit Accounting Guidance (INPAG) proposals and the New Zealand Tier 3 (NFP) Standard *Reporting Requirements for Tier 3 Not-for-Profit Entities*. These frameworks were considered, to the extent consistent with the project objective and in line with the Board’s agreed principles in developing the Tier 3 reporting requirements, for the purpose of developing simplified and proportionate requirements for smaller NFP private sector entities.
- BC12 The Board was also informed by Research Report No. 19 *Common Financial Statement Items: Charities* with \$0.5–\$3 million in revenue (April 2023), which analysed 260 financial statements of ACNC-registered charities with annual revenue ranging from \$0.5 million to \$3 million to identify the financial statement line items that are commonly recorded in financial statements of medium-sized charities.
- BC13 Considering the limited resources of smaller NFP private sector entities, the Board developed an online survey to maximise its outreach in conjunction with virtual and in-person outreach sessions. That phase of the Board’s consultation ended in March 2023; the Board received 263 responses from online surveys and 14 written submissions, and conducted several outreach events attended by over 280 attendees.
- BC14 After consideration of the feedback on the DP, based on the broad support from stakeholders, the Board decided to proceed with the development of an ED of a Tier 3 Standard with simplified recognition,

measurement and disclosure requirements applicable to smaller NFP private sector entities without public accountability that are not prohibited from applying Tier 3 reporting requirements by the relevant legislation, constituting document or other document (referred to as Tier 3 entities).

Significant decisions made by the Board in developing the Exposure Draft

- BC15 When developing the proposals in this ED, where most stakeholders agreed with the Board's preliminary views in the DP, the ED proposals are largely based on the preliminary views in the DP. Where the Board had not yet decided on some particular aspects of the Tier 3 reporting requirements, or stakeholders expressed mixed views on some aspects of the Board's preliminary views, the Board deliberated further whether to proceed with, or apply an alternative approach to, the Board's preliminary views in the DP.
- BC16 The Board decided, based on overall support from stakeholders, to proceed with the ED proposals based on the following preliminary views in the DP, with further simplifications where applicable:
- (a) not develop proposals for reporting service performance information;
 - (b) not develop a fourth tier of accounting for NFP private sector entities;
 - (c) not incorporate any consequential amendments to existing requirements specified in Tier 1 and Tier 2 AAS, as presently modified for NFP private sector entities;
 - (d) retain current Tier 2 reporting requirements, except for simplifying the expression and disclosures, for:
 - (i) inventory; in addition, permit, but 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;
 - (ii) property, plant and equipment and investment property, with simplified requirements for non-financial assets acquired for significantly less than fair value (see paragraphs BC110–BC114) and impairment of non-financial assets (see paragraphs BC115–BC120). In addition, permit, but not require, the allocation of depreciation or amortisation charges on other assets to the cost of constructing self-constructed items of property, plant and equipment and investment properties;
 - (iii) volunteer services;
 - (iv) going concern;
 - (v) offsetting of assets and liabilities; and
 - (e) provisions, contingent assets, contingent liabilities and guarantees and firm commitments; expense all borrowing costs as they accrue;
 - (f) translate foreign currency transactions using the rate at the transaction date, or at the end of the reporting period for monetary assets and liabilities; and
- BC17 base tax expenses on income tax payable, without any allowance for deferred tax assets or deferred tax liabilities.
- BC18 The Board further deliberated on its preliminary views in the DP in deciding its proposals for this ED on the matters outlined in paragraphs BC19–BC139.

Stand-alone Standard

- BC19 A key consideration for the Board in forming its view to develop a third proposed reporting tier was the ease of use and understandability of the reporting requirements for stakeholders, resulting in the aim to present Tier 3 reporting requirements in a stand-alone accounting standard specifying reporting requirements relevant to transactions, other events and conditions that are common to a Tier 3 entity. However, the Board recognised that a stand-alone standard containing Tier 3 reporting requirements cannot address the whole breadth of transactions, other events and conditions addressed by Tier 1 and Tier 2 AAS. To do so might clutter the Tier 3 Standard with requirements irrelevant to many Tier 3 entities. In that regard, the Board decided that the Tier 3 Standard should:
- (a) scope out certain types of transactions, other events and conditions that are uncommon to Tier 3 entities. For these scoped-out transactions, other events and conditions, the Board's preliminary view was to direct entities to follow the Tier 2 reporting requirements; and

- (b) provide entities with direction to develop an appropriate accounting policy for transactions, other events and conditions for which the Tier 3 reporting requirements do not provide guidance.

Topics scoped out from the Tier 3 Standard

- BC20 The Board did not express a preliminary view in the DP on the types of transactions, other events and conditions that might be scoped out of the Tier 3 Standard. However, from its initial outreach and consideration of pronouncements of other jurisdictions noted in paragraph BC10, the Board considered the types of transactions, other events and conditions scoped out, for which entities applying the Tier 3 Standard would be required to apply the Tier 2 requirements, would be either:
- (a) uncommon for Tier 3 entities; or
 - (b) complex transactions warranting the application of requirements specified by existing Australian Accounting Standards.
- BC21 As such, the Board outlined in the DP the following possible accounting topics that it might not specifically address in the Tier 3 Standard:
- (a) business combinations;
 - (b) share-based payments;
 - (c) insurance contracts;
 - (d) exploration for and evaluation of mineral resources;
 - (e) financial assets and financial liabilities that are identified as 'more complex' financial instruments in Section 10: *Financial Instruments* of this ED;
 - (f) employee benefits in relation to obligations arising under a defined benefit plan; and
 - (g) service concession arrangements.
- BC22 The Board did not express a preliminary view on whether intangible assets should also be scoped out of the Tier 3 Standard and, to inform its decision about that issue, decided to seek feedback from stakeholders on the extent of use and the types of intangible assets held by Tier 3 entities.
- BC23 Overall, stakeholders were supportive of the Board's preliminary view that entities should apply the classification, recognition, measurement and disclosure requirements specified by Tier 2: Australian Accounting Standards – Simplified Disclosures for topics in paragraph BC21. However, some stakeholders were concerned about the complexity of requiring Tier 3 entities to apply the Tier 2 requirements for certain topics and therefore disagreed with scoping the following topics out of the Tier 3 Standard:
- (a) business combinations: stakeholders considered it would not be uncommon for Tier 3 entities to be involved in a merger or acquisition; and
 - (b) biological assets, service concession arrangements and financial instruments identified as 'more complex financial instruments', even though each of these might be uncommon transactions for Tier 3 entities.
- BC24 Some stakeholders had mixed views on whether intangible assets are commonly held by Tier 3 entities. Some stakeholders identified that Tier 3 entities sometimes hold intangible assets such as software, goodwill or trademarks and encouraged the Board to develop Tier 3 reporting requirements for intangible assets. However, some stakeholders considered that Tier 3 entities held no intangible assets and that accounting for intangible assets was not a significant issue for most Tier 3 entities.
- BC25 The Board considered the feedback received and decided to propose in the ED, consistently with its preliminary view in the DP (except for business combinations and service concession arrangements), to keep the design of the Tier 3 Standard outlined in paragraph BC21. The Board was also informed by Research Report No. 19 that some charities reported goodwill and other intangible assets in their financial statements, even though doing so might be uncommon, and decided to develop requirements to address business combinations and intangible assets in the Tier 3 Standard. While private sector operators would be required to apply AASB Interpretation 12 *Service Concession Arrangements* to account for their service concession arrangements, it is likely to be an uncommon transaction for a Tier 3 entity. Therefore, the Board decided to exclude reference to service concession arrangements from the list of transactions for which an entity would be directed to apply the Tier 2 requirements. The Board noted that an entity may still refer to any Tier 2 reporting requirements (eg AASB Interpretations) in the absence of explicit guidance in the Tier 3 Standard as noted in paragraph BC30.
- BC26 The Board reconfirmed its preliminary view not to develop any specific Tier 3 reporting requirements for property, plant and other non-current assets that an entity intends to sell rather than hold for continuing use

because the Board expects such events to be infrequent. Therefore, the Board decided to also scope out non-current assets held for sale and discontinued operations from the Tier 3 Standard.

Application of accounting policies in the absence of explicit guidance in the Tier 3 Standard

- BC27 The Board expressed a preliminary view in the DP the following directions an entity would need to follow in developing an appropriate accounting policy when the Tier 3 reporting requirements do not provide guidance:
- (a) first apply the classification, recognition, measurement and disclosure requirements specified by Tier 2: Australian Accounting Standards – Simplified Disclosures; and
 - (b) otherwise, apply judgement in developing an accounting policy by reference to the following sources in descending order:
 - (i) the principles and requirements in the Tier 3 Standard dealing with similar and related issues; and
 - (ii) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Australian conceptual framework relevant to NFP entities, to the extent they do not conflict with Tier 3 reporting requirements.
- BC28 In forming its views, the Board considered it would be easier for Tier 3 entities to be directed to first apply the existing Tier 2 requirements than to be required to apply judgement in developing their own accounting policy to account for transactions, other events and conditions scoped out of the Tier 3 reporting requirements. In addition, referring entities directly to Tier 2 requirements would enhance comparability amongst Tier 3 entities and across tiers.
- BC29 While stakeholders generally agreed with the proposed approach in paragraph BC27 to apply to topics scoped out of, or not the subject of guidance in, the Tier 3 Standard, some stakeholders expressed concerns about directing entities to first apply Tier 2 requirements because they considered a stand-alone standard should avoid the need for an entity to apply Tier 2 requirements. Instead, stakeholders considered an entity should be allowed to develop an accounting policy by first referring to the principles and requirements in the Tier 3 Standard dealing with similar or related issues.
- BC30 In response to the stakeholders' concerns, the Board decided to confirm its aim of developing a stand-alone standard and propose in the ED that entities can apply judgement in developing their accounting policies by first referring to the Tier 3 reporting requirements and principles dealing with similar or related issues in respect of transactions, other events and conditions not specifically addressed in the Tier 3 Standard. In making this judgement, management may also consider Tier 2 requirements and guidance. The Board reconfirmed its decision and proposed in the ED to require entities to apply the Tier 2 requirements directly for topics scoped out of the Tier 3 Standard.

Applying an accounting policy permitted or required by Tier 1 or Tier 2 Australian Accounting Standards

- BC31 Through its initial outreach, the Board was informed that some Tier 3 entities might already comply with several or all of the accounting policies prescribed by Tier 2 AAS and these entities may want to continue their existing policies. Notwithstanding that a Tier 3 entity may still elect to prepare Tier 1 or Tier 2 compliant financial statements, the Board considered whether it should develop requirements that would permit an entity preparing Tier 3 GPFS to apply an R&M policy permitted or required by Tier 1 or Tier 2 AAS. In that regard, the Board decided to seek feedback on the application of an accounting policy permitted or required by Tier 1 or Tier 2 AAS, specifically, whether to:
- (a) allow an entity a free choice for a transaction, other event or condition within the scope of the Tier 3 Standard;
 - (b) develop requirements that would allow an entity to only apply Tier 1 or Tier 2 AAS on a policy-by-policy basis for topics specified by the Board; or
 - (c) restrict the range of accounting policies to only those specified by the Tier 3 Standard for transactions or other events within the scope of the Tier 3 Standard.
- BC32 Stakeholders expressed mixed views on the options presented in paragraph BC31. On one hand, some stakeholders considered that allowing an entity a free choice to apply an accounting policy in Tier 1 or Tier 2 AAS would provide flexibility and enable the entity to provide more appropriate information to users that reflects the nature and complexity of the transaction or other event. However, some stakeholders did not support allowing a free choice because it would create inconsistencies and a lack of comparability, and may lead back to issues similar to those arising under the SPFS regime.

- (a) After considering the feedback, the Board decided to propose in the ED to allow entities to apply an accounting policy permitted or required by Tier 1 or Tier 2 AAS that is not included in the Tier 3 Standard only where a transaction, other event or condition is not addressed by the Tier 3 Standard

Primary financial statements

- BC33 Regarding what should form a Tier 3 entity's primary financial statements, in line with principles applied in developing Tier 3 reporting requirements, including the desirability of maximising consistency with Tier 2 accounting principles where possible (consistent with the principle in developing the Tier 3 reporting requirements noted in paragraph BC8(c)), the Board decided to consider the requirements for the presentation of financial statements set out in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Entities* as the starting point, with further simplification. The Board considered it is generally accepted that some form of statements about the entity's financial result for the period and financial position, including notes, must be presented because they provide crucial financial information about the entity to the users of its GPFS. However, the Board observed there is less consensus about the usefulness of the level of detail and location of the information about other comprehensive income, changes in the entity's equity or accumulated funds and cash flows for Tier 3 entities. As such, the Board decided to consider possible simplification approaches for the statement of comprehensive income, statement of changes in equity and the statement of cash flows.

Statement of profit or loss and other comprehensive income (Statement of comprehensive income)

- BC34 In its initial outreach, the Board heard that users of financial statements might not fully understand that items of other comprehensive income often are unrealised gains and losses. Also, users might be less informed that these gains or losses may or may not be reclassified to profit or loss. As an alternative to requiring some items to be classified as 'other comprehensive income', the Board discussed whether simply requiring a statement of profit or loss would be a proportionate response for Tier 3 financial statements. However, the Board considered that the benefits of providing more complete and transparent information about the entity's performance would outweigh the cost of providing such information (which should be reduced by further education about the nature of the balances reported). As such, the Board formed a preliminary view that a statement of profit or loss and other comprehensive income remains useful and therefore should be required for Tier 3 GPFS without imposing significant costs on preparers.
- BC35 Most stakeholders supported extending to Tier 3 entities the requirement in AASB 1060 to present a statement of profit or loss and other comprehensive income. However, some stakeholders disagreed and considered a two-statement approach should be adopted to separately present a statement of profit or loss from a statement of comprehensive income (which would be presented only if an entity incurred items of other comprehensive income). Otherwise, a statement of other comprehensive income should not be required as part of the Tier 3 primary financial statements.
- BC36 The Board considered the feedback received and decided, consistent with its preliminary view in the DP, to propose in the ED requiring a statement of other comprehensive income as part of Tier 3 primary financial statements. This is consistent with several decisions the Board made that would result in the recognition of items of other comprehensive income, for example, in Section 15: *Property, Plant and Equipment* when recognising revaluation gains or losses, or when an entity makes an irrevocable election on initial recognition to recognise changes in fair value through other comprehensive income for a class of instruments in accordance with Section 10: *Financial Instruments*. The Board also decided to propose, consistent with its preliminary view, to align the presentation requirements with Tier 2 principles. This would allow an entity to present a single statement of profit or loss and other comprehensive income or a separate statement of profit or loss and a separate statement of comprehensive income, including presenting a statement of comprehensive income in which the bottom line is labelled 'profit or loss' if the entity has no items of other comprehensive income.
- BC37 Some stakeholders considered the need for more direct requirements and guidance on when to aggregate or disaggregate information on the face of the statement of profit or loss and other comprehensive income. However, the Board decided, based on the support from the majority of feedback on the preliminary views in the DP, that aligning the presentation requirements with AASB 1060, supported by explanatory guidance or examples:
- (a) would better invite the entity to use the financial statements to 'tell their story';
 - (b) would allow management to determine the level of aggregation or disaggregation of line items presented on the face of the financial statements based on the needs of the entity's users; and

- (c) may be able to educate preparers and accommodate a growing entity with increasingly sophisticated users, rather than catering only to existing accounting literacy.

Statement of changes in equity

- BC38 From its initial outreach, the Board heard the statement of changes in equity might help users assess the integrity of the financial statements and would provide important information about the effects of adjustments to equity resulting from changes in accounting policies and corrections of errors. However, the Board noted that for many Tier 3 entities, the change in equity might be only the profit or loss for the reporting period. As such, the Board considered an alternative presentation of disclosing changes in equity other than profit or loss in the notes to the financial statements might be sufficient to meet users' needs. Noting the differing perspectives, the Board decided to seek stakeholder views in the DP on whether a statement of changes in equity should be required as part of the specified Tier 3 primary financial statements or to provide an alternative presentation requiring the information to be disclosed in the notes to the financial statements.
- BC39 Stakeholders expressed mixed views on whether a statement of changes in equity should be required. Stakeholders that supported requiring a statement of changes in equity considered the information about changes in an entity's reserves (if any) important in addition to identifying changes in accounting policies and corrections of errors. Stakeholders that did not support requiring a statement of changes in equity considered that, for many Tier 3 entities, the only movement in equity for the reporting period would be their profit or loss, and therefore considered the statement does not add value to users. Only some stakeholders considered the information required in the statement of changes in equity should be disclosed in the notes if that statement is not required.
- BC40 The Board considered the feedback received and decided to propose in the ED to align the requirement for the statement of changes in equity with AASB 1060 where an entity would be required to prepare a statement of changes in equity only in certain circumstances specified in Section 5: *Statement of Changes in Equity and Statement of Income and Retained Earnings*; otherwise, a statement of income and retained earnings may be prepared instead.

Statement of cash flows

- BC41 The Board expressed a preliminary view in the DP to require the statement of cash flows to present cash flows from operating activities separately without requiring cash flows from investing activities to be distinguished from cash flows from financing activities. The Board also expressed a preliminary view to require cash flows from operating activities to be presented using the direct method only, instead of allowing an accounting policy choice for an entity to apply the indirect method.
- BC42 In developing its preliminary views, the Board considered that the benefits of retaining the Tier 2 reporting requirement to present separately cash flows from investing and financing activities might be limited because, without that requirement, each major class of gross cash receipts and gross cash payments would remain separately disclosed. Not requiring the distinction reduces an element of judgement from the preparation of the financial statements and reduces potential confusion among preparers and users. Allowing only the direct method to present cash flows from operating activities would remove the need to disclose a reconciliation of the net cash flows from operating activities to the profit or loss in the notes to the financial statements.
- BC43 The Board also considered whether to limit the statement of cash flows to reporting solely on cash and overdrafts instead of capturing cash and cash equivalents as required by Tier 2 requirements. Ultimately, the Board decided that cash equivalents are an important element because they are largely similar to cash; therefore, reflecting them in the statement of cash flows is necessary to demonstrate stewardship of an entity's resources as well as maintaining consistency with Tier 1 and Tier 2 statement of cash flows requirements.
- BC44 While most stakeholders supported the Board's preliminary view for the presentation requirements of the statement of cash flows noted in paragraph BC41, some stakeholders considered not separately presenting investing from financing activities in the statement of cash flows might reduce users' ability to evaluate the sources of funds and their use. They also noted that existing accounting software already enables an entity to present separately cash flows from investing and financing activities. The Board also heard that both the direct and indirect methods to presenting cash flows from operating activities should continue to be permitted in the Tier 3 Standard, consistent with the findings in Research Report No. 19 that most Tier 3 entities apply both the direct and indirect methods.
- BC45 After considering the feedback, the Board decided to propose in this ED to permit but not require cash flows from investing activities to be presented separately from cash flows from financing activities. The Board also decided to continue from Tier 2 reporting requirements permitting cash flows from operating activities to be presented using either the direct or indirect method to minimise transition costs. However, to provide some simplification for Tier 3 entities, the Board decided not to require entities applying the direct method to disclose a reconciliation of net cash flows from operating activities to the profit or loss.

Consolidated and separate financial statements

Choice whether to prepare consolidated financial statements

- BC46 In relation to the Tier 2 requirement in AASB 10 *Consolidated Financial Statements* for entities to prepare consolidated financial statements if they have subsidiaries (ie entities they control), the Board was informed through previous stakeholder outreach about challenges and costs in identifying a complete set of subsidiaries of Tier 3 entities, because of:
- (a) information not being readily available to those entities; and
 - (b) a stakeholder view that consolidated financial statements do not provide useful information compared with entity-level financial statements for each entity in a group, sometimes because of disagreement that some entities identified as subsidiaries are actually controlled by the reporting entity; and
 - (c) proportionately greater costs likely to be incurred by Tier 3 entities in preparing consolidated financial statements.
- BC47 In addition, the Board received feedback that avoiding consolidation might be a reason some entities presently elect to prepare special purpose financial statements. In response to the feedback referred to in paragraph BC46, the Board concluded that the costs of requiring (with or without limited exceptions) the preparation of consolidated financial statements by Tier 3 parent entities are likely to exceed the benefits to users of financial statements of those parent entities. Therefore, the Board expressed in its DP a preliminary view to provide an option to Tier 3 parent entities to present either:
- (a) consolidated financial statements; or
 - (b) separate financial statements as their only set of financial statements, with disclosures about each parent entity's significant/notable relationships ('notable relationships').
- The Board decided not to develop additional guidance on identifying control, because such guidance would not necessarily reduce the complexity of assessing whether control relationships exist and might have unintended implications for Tier 2 NFP entities applying AASB 10. The Board considers that implementation concerns about the guidance on control in AASB 10 affect NFP entities of all sizes, and plans to consider those concerns as part of its post-implementation review of the application guidance for NFP entities in AASB 10, rather than in its project to develop a Standard for Tier 3 entities.
- BC48 Overall, the stakeholder feedback supported the Board's preliminary view on consolidation in paragraph BC47. However, some stakeholders disagreed, even if additional compensating disclosures were required. They expressed a view that, to be of a 'general purpose' nature, a parent entity's financial statements need to recognise all assets the entity controls and all liabilities it incurs (directly, or indirectly through subsidiaries), and changes in those assets and liabilities. They also expressed views that:
- (a) preparing consolidated financial statements is important in providing transparent information to users of a parent entity's financial statements about the resources available to, the financial risk associated with, and the funding provided to, the reporting entity as a whole; and
 - (b) providing an accounting policy choice about whether to prepare consolidated financial statements might undermine the comparability between financial statements of similar groups of Tier 3 entities.
- BC49 The Board considered the feedback received and decided to propose in the ED a policy consistent with its preliminary view in the DP because:
- (a) it is generally expected that few Tier 3 entities would be parent entities;
 - (b) separate financial statements, supplemented by disclosures of key information about notable relationship entities, can provide useful information about the reporting entity and its notable relationships without requiring assessments of whether control exists and requiring all the information necessary for the preparation of consolidated financial statements. Requiring disclosure of information about the identity of 'notable relationship entities' (see paragraphs BC51–BC54) should enable users of the financial statements of Tier 3 entities to obtain GPFS, if available, of those notable relationship entities; and
- BC50 exceptions to preparing consolidated financial statements exist in AASB 10 (eg in respect of investment entities); where exceptions are utilised, the financial statements nevertheless are referred to as GPFS.

Disclosures about notable relationships

- BC51 As noted in paragraphs BC47 and BC49, the Board proposes requiring disclosures of information about notable relationships in separate financial statements (but not if the reporting entity presents consolidated financial statements). This ED's proposed definition of a 'notable relationship entity' is an entity:
- (a) over which the parent entity has at least significant influence (ie it would also include any instances of control or joint control, without requiring identification of whether the relationship is one of control, joint control or just significant influence); but
 - (b) that is not identified as an associate. Disclosure requirements for associates are specified separately in Section 13: *Investments in Associates and Joint Arrangements*.
- BC52 Defining a 'notable relationship entity' as an entity over which the parent entity has at least significant influence responds to feedback from previous outreach with stakeholders, who indicated few concerns with identifying relationships of significant influence although identifying control relationships has been problematic (eg stakeholder feedback suggested it might often be straightforward to determine whether a church has significant influence over a religious school but highly problematic to determine whether the church controls the school).
- BC53 The Board proposes to require disclosure of the name of the entities with which the reporting entity has a notable relationship and a description of those relationships, together with other descriptive (non-quantitative) information. The Board considered whether to also propose requiring disclosure of key metrics about notable relationship entities, such as their total assets. The Board concluded that making such disclosures would be likely to reduce considerably the cost savings ensuing when a parent entity elects not to prepare consolidated financial statements in respect of its subsidiaries. This is because:
- (a) the range of notable relationship entities that are the subject of the disclosures would be broader than controlled entities (because they include all entities over which the entity has at least significant influence); and
 - (b) requiring disclosure of key metrics might prove almost as costly as requiring consolidated financial statements (ie the cost savings from having to disclose only key metrics would pertain mainly to cost savings relating to disaggregating and presenting information, without reducing the cost of record-keeping and calculating financial statement elements of controlled entities).
- BC54 Therefore, the Board is not proposing to require disclosure of key metrics about notable relationship entities.

Measurement basis subsequent to initial recording for interests in notable relationship entities reported in separate financial statements

- BC55 The Board expressed a preliminary view in the DP that a parent entity that presents separate financial statements should have the choice of measuring, subsequent to initial recording, its interests in subsidiaries at any of:
- (a) cost;
 - (b) fair value through other comprehensive income; or
 - (c) their equity method-based amounts.
- BC56 Overall, stakeholder feedback supported the Board's preliminary view. Some stakeholders expressed concern that too many measurement choices are provided, which might reduce the consistency of subsequent measurement; some others argued that investments in subsidiaries should be measured only at cost in separate financial statements of the parent. Regarding consistency of measurement, the Board noted in the DP that:
- (a) it expects that Tier 3 entities presenting separate financial statements will, in the main, measure any interests in subsidiaries at cost;
 - (b) permitting a parent entity to measure its interests in subsidiaries at fair value through other comprehensive income in its separate financial statements should promote consistency of measurement by treating those interests in the same manner as the treatment under the Board's preliminary views regarding financial assets held to generate both income and a capital return for the entity (note that, under the Board's proposals in the ED regarding the subsequent measurement of financial instruments in paragraph BC71, an entity could make an irrevocable election at initial recording of the first asset in such a class of financial assets to measure the class at fair value through other comprehensive income). This measurement basis could provide relevant information where the entity determines the substance of its interests in its subsidiaries is a financial investment, ie a financial asset held to generate both income and a capital return for the entity;

- (c) where a parent determines that the substance of its interests in its subsidiaries is more akin to that of an associate interest, despite the entity controlling those subsidiaries, permitting the parent entity to measure its interests in subsidiaries using the equity method in its separate financial statements would allow the parent entity to measure its interests in subsidiaries consistently with its investments in associates (for which, under the Board's preliminary view in the DP, reaffirmed in its corresponding proposal in the ED, application of the equity method would be required in consolidated financial statements, if prepared); and
 - (d) restricting the accounting policy choice for subsequent measurement of interests in subsidiaries in separate financial statements might impose a stricter requirement than that currently imposed under Tier 2 reporting requirements, which allow a choice for a parent entity to select the measurement basis for its interests in subsidiaries in separate financial statements.
- BC57 The Board extended the scope of the preliminary view regarding measurement requirements in paragraph BC55 to encompass interests in any notable relationship entities reported in separate financial statements. In addition, the Board decided to propose that interests in notable relationship entities should, if not measured at cost or using the equity method of accounting, be measured at fair value through profit or loss unless the entity makes an irrevocable election at initial recording of a particular investment to present changes in its fair value in other comprehensive income. This option is consistent with the Board's proposed subsequent measurement basis for financial assets acquired or originated by the entity to generate both income and a capital return for it (including all investments in equity instruments). The proposed option to make an irrevocable election at initial recording regarding the presentation of subsequent changes in fair value (ie through other comprehensive income, rather than profit or loss):
- (a) responds to concerns about both the potential volatility of fair changes affecting the reported profit or loss and the unfamiliarity of some users of financial statements of Tier 3 entities with the concept of other comprehensive income;
 - (b) has a precedent in AASB 9 *Financial Instruments*, paragraphs 4.1.4 and 5.7.5 of which provide an option to make an irrevocable election at initial recording to measure financial assets meeting particular criteria at fair value through other comprehensive income instead of fair value through profit or loss; and
- BC58 would apply consistently to all interests in a single class of interests (interests in subsidiaries, associates or jointly controlled entities) and therefore, in effect, would be made on initial recording of the first interest in a class, subject to the transitional provisions for initial application of this Standard (see paragraph 29.11(e)). The proposed measurement requirements for a parent entity's investments in associates and joint ventures included in its consolidated financial statements (if any) are specified in Section 13: *Investments in Associates and Joint Arrangements*, rather than in Section 8: *Notable Relationships and Consolidated and Separate Financial Statements*.

Accounting policies, estimates and errors

- BC59 The Board considered that an entity preparing Tier 3 GPFS should be able to voluntarily change any accounting policy to another permitted policy, provided the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, performance or cash flows, which is consistent with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Board expressed a preliminary view in the DP to require a modified retrospective approach for changes in accounting policies. That approach distinguishes the cumulative effects of transactions and other events in prior periods from the effect of transactions and other events occurring in the current period, but without requiring restatement of comparative information reported in respect of each prior period presented. The Board considered this approach would strike an appropriate cost-benefit balance for Tier 3 entities and is compatible with AASB 108, which caters for a modified retrospective approach in transitional provisions of various new and amended Standards. The Board recognises that comparative financial information would not be restated and some comparability would be sacrificed under its proposal. However, the Board considered the benefits of restating comparative information presented for prior periods might not exceed the related costs since these adjustments are generally one-off in nature and users of Tier 3 entity financial statements might not regard such restatements as crucial. The Board also decided to develop similar requirements for a modified retrospective approach to apply to corrections of prior period accounting errors. For changes in accounting estimates, the Board does not propose to depart from AASB 108, which requires prospective application of changes in accounting estimates, because the Board did not identify any reasons to develop different requirements for Tier 3 entities through previous stakeholder outreach.
- BC60 As an alternative to the approach described in paragraph BC59, the Board considered whether to permit Tier 3 entities to account prospectively for voluntary changes its accounting policies or to correct prior period errors.

- However, the Board was concerned that applying a prospective approach could misrepresent the current period's results, and might affect the entity's financing covenants or inadvertently change the extent of the entity's reporting obligations through a one-off change to the entity's revenues or expenses.
- BC61 Overall, the stakeholder feedback supported the Board's preliminary view described in paragraph BC59 to apply a modified retrospective approach to account for changes in accounting policies and corrections of prior period errors and a prospective approach for changes in accounting estimates. However, some stakeholders disagreed with applying a modified retrospective approach to account for prior period errors. They expressed a view that not requiring restatement of comparative information for known prior period errors would:
- (a) mislead users and obscure the current year operations in some situations, and might create opportunities for management to manipulate financial reporting; and
 - (b) cause concerns about whether financial statements would provide a true and fair view if the comparative information contains a material known error, with implications for an auditor's ability to express an unqualified opinion on the financial statements.
- BC62 The Board considered the feedback received and decided to retain its DP preliminary view in the proposed requirements in the ED because:
- (a) under its proposals, the amounts of revenues and expenses reported for the current period would exclude, and therefore not be distorted by, the cumulative effects of prior period errors;
 - (b) the Board's proposal would not permit an identified prior period error to remain uncorrected or be undisclosed – instead, it would limit the required restatements to the affected opening balances for the current period;
 - (c) an auditor would provide assurance against the information presented in accordance with the applicable financial reporting framework, and where such a framework permits the financial statements to be prepared in accordance with this Standard, it includes the simplification of not requiring comparative information to be restated for corrections of prior period errors. The Board also noted that similar audit considerations arose upon the removal of special purpose financial statements for certain for-profit private sector entities, where the Board, through the issue of *AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*, allowed entities that prepared special purpose financial statements not to restate comparative information when adopting Tier 2 requirements early; and
 - (d) a similar approach was adopted in the New Zealand Tier 3 Standard and the Board is not aware of adverse feedback received during that Standard's post-implementation review in relation to applying a modified retrospective approach to the correction of prior period errors.
- BC63 However, in response to the concerns expressed by these stakeholders, the Board decided to propose a disclosure requirement to signal to users that a modified retrospective approach has been applied to account for changes in accounting policies and corrections of prior period errors and that the adjustments to the opening balances for the current period are not reflected in the comparative information presented for prior periods.
- BC64 The Board also noted that it might be more onerous if the 'impracticable' exemption in AASB 108 was not included in the Tier 3 Standard, notwithstanding the proposed simplification of applying a modified retrospective approach to changes in accounting policies and corrections of prior period errors. Under that exemption in AASB 108, if it is impracticable for an entity applying Tier 1 or Tier 2 reporting requirements to determine the period-specific effects of changing an accounting policy or correcting a prior period error on comparative information for one or more prior periods presented, the entity would apply the new accounting policy or correct the prior period error prospectively from the beginning of the earliest period for which retrospective application of the new accounting policy, or retrospective restatement of prior period amounts to correct the error, is practicable. To respond to the possibility that it might be impracticable for a Tier 3 entity applying the modified retrospective approach to a new accounting policy or a prior period error by recording all prior period effects on the opening balances of assets, liabilities and equity for the period in which the accounting policy is changed or the prior period error is corrected, the Board decided to propose a similar 'impracticable' exemption for Tier 3 entities. Under that proposed exemption, the Tier 3 entity would adjust the opening balances of assets, liabilities and equity to apply the new accounting policy or correct the prior period error prospectively from the earliest date practicable.
- BC65 For cost-benefit reasons, the Board proposed further simplifications of the Tier 2 disclosure requirements, including not requiring Tier 3 entities to determine whether a change in accounting policy might have an effect on future periods, including disclosure of the estimated current period effects of that change.

Financial instruments

- BC66 The Board was informed through previous outreach that many stakeholders regard AASB 9 *Financial Instruments* to be a complex accounting standard. This view is consistent with the wide breadth of that Standard's scope, being to provide useful information to users of the financial statements of financial instruments held by financial institutions and non-financial institutions, financial instruments held by start-ups and other simple businesses and those held by entities employing more complex financial management strategies. Hence, the Board considered it is necessary to develop simpler reporting requirements for financial instruments compared to those specified by Tier 2 reporting requirements.

Scope

- BC67 The Board expressed preliminary views in the DP that the future Tier 3 Standard should identify the basic financial instruments that a Tier 3 entity might typically hold, for which simpler requirements will apply. The Board's preliminary view in the DP was to require application of respective AAS to particular more complex financial instruments. The feedback from stakeholders on the DP supported the notion of distinguishing between financial instruments specifically in the scope of this Standard and those that are not. After considering the feedback, the Board decided to propose including the basic or commonly held financial instruments listed in paragraph 10.2 in Section 10: *Financial Instruments* in the scope of this Standard and to propose a requirement to apply Tier 2 requirements to more complex financial instruments and financial instruments not commonly held by Tier 3 entities, such as those listed in paragraph 10.3 in Section 10. The Board also decided to propose that entities applying this Standard are not permitted to apply hedge accounting. The alternative the Board considered and rejected was to determine the financial instruments in the scope of this Standard on the basis of whether an instrument contains potentially complex features (for example, a derivative). However, the Board considered this alternative would be unnecessarily complex and that it is more important to provide clarity in the simplest way possible, given the relatively limited complexity and breadth of the financial instruments expected to be commonly held by entities applying this Standard.

Recognition and derecognition

- BC68 In absence of specific concerns about the application of the financial instruments recognition requirements pertaining to Tier 3 entities, the Board decided to propose, consistently with the principles of AASB 9, that the instruments in the scope of this Standard will be recognised when the entity becomes party to the contractual provisions of the financial instrument. However, in relation to derecognition of financial assets and financial liabilities, in its aim to simplify the requirements, the Board decided to propose some differences from AASB 9. Following the support from stakeholders for the Board's preliminary view in the DP, the Board decided to propose to require that a financial asset is derecognised only when either the contractual rights to the cash flows from that asset expire or are settled, or the entity otherwise loses control of that asset. This is to address concerns regarding the difficulty of assessing pass-through transactions and whether the entity retains a continuing involvement in a financial asset. Similarly, the Board proposes simpler requirements than those in AASB 9 for the derecognition of financial liabilities in the scope of this Standard by not specifying requirements for exchanges of debt instruments or the modification of the terms of an existing financial liability. Given the Board's proposals regarding the treatment of initial transaction costs, subsequent measurement and the calculation of interest expense, the effect is unlikely to differ significantly regardless of whether the transaction or other event is treated as the derecognition of the original financial liability and recognition of a new financial liability, or as an adjustment of the original financial liability.

Initial measurement

- BC69 When developing its preliminary views for the DP, the Board did not find any evidence suggesting that the fair value on initial recognition of a basic financial asset or financial liability by a Tier 3 entity would typically differ from the transaction price. Therefore, the Board also decided to propose to apply fair value for the initial measurement of amounts receivable, estimated as the amount of consideration to which the entity expects to be entitled in exchange for the goods or services transferred to customers. The feedback on the DP supported the Board's preliminary view to require basic financial assets and financial liabilities to be measured at fair value on initial recognition, including the requirement for transaction costs arising from financial assets and financial liabilities to be expensed when incurred. The Board decided to propose this simplification to eliminate costs of identifying, monitoring and amortising transaction costs while being unlikely to result in any material misrepresentation of the financial instruments.
- BC70 As an exception to the requirement for basic financial instruments to initially be measured at fair value, the Board decided to propose to require a concessional loan (ie a loan with a contractual interest rate significantly less than the corresponding market rate for such loan, where that lower rate was contracted principally to

enable the Tier 3 entity to further its objectives) to be measured at its transaction price on initial recognition. The Board considered that the benefits of this exception, including:

- (a) removing the need to determine an equivalent market interest rate;
- (b) the related complexity of necessarily amortising the resulting day 1 gain or loss if fair value were used at initial measurement and the Board retained its DP proposal to simplify the measurement of interest income and interest expense by requiring them to be measured using the contractual interest rate; and
- (c) its compatibility with the Board's proposal to simplify the measurement of interest income and interest expense by using the contractual interest rate,

outweigh the cost of the information lost to users of the financial statements and lack of consistency with initial measurement of other financial instruments. The Board's proposal to require a concessional loan to be measured at its transaction price on initial recognition differs from its proposals to permit initial measurement of donated investment property, property, plant and equipment and intangible assets at fair value (in accordance with paragraphs 14.6, 15.4 and 16.4, respectively) and of donated inventories at current replacement cost (in accordance with paragraph 12.8). The Board concluded that this difference is warranted by the benefits noted in (a) – (c) above, which relate to aspects (such as subsequent measurement of interest income and interest expense) that do not arise for non-financial assets.

Subsequent measurement

- BC71 The feedback from the Board's preliminary outreach and on ITC 47 *Request for Comment on IASB Request for Information on Post-implementation Review of IFRS 9 Financial Instruments – Classification and Measurement* did not highlight stakeholder concerns with the appropriateness of the split between cost and fair value measurement bases. However, the Board observed that Tier 3 entities are less likely to hold financial assets for trading purposes, and with the aim of removing the degree of judgement required to assess the 'cash-flow' test and 'business model' test under AASB 9, the Board decided to propose the requirement for financial assets that are held to generate both income and a capital return and within the scope of this Standard to be measured subsequently at fair value through profit or loss, whilst permitting an irrevocable election on initial recognition to recognise changes in fair value through other comprehensive income for a class of instruments. The availability of an irrevocable election was provided to respond to the stakeholder feedback on the DP to simultaneously maintain, at least to some extent, comparability with Tier 2 requirements while enabling various intentions of Tier 3 entities holding these financial instruments to be reflected, acknowledging the potential effect on comparability amongst entities applying this Standard.
- BC72 In recognition that measuring interest income and interest expense by reference to the contractual interest rate is more straightforward to apply compared to using the effective interest method, the Board decided to propose that financial assets arising from instruments that are basic or commonly held by Tier 3 entities are measured subsequently to initial recognition at cost less accumulated impairment losses. Similarly, the Board proposed to require all financial liabilities to be measured at cost. The Board considered and rejected proposals that 'cost' includes premiums or discounts on the acquisition of the asset or incurrence of the liability deferred because the Board considered it not sufficiently common for Tier 3 entities to warrant inclusion of guidance regarding premiums or discounts in this ED.
- BC73 The Board observed that, in some cases, the cost of shares held in an unlisted company may be an appropriate estimate of its fair value. These instances are expected to be limited, for example, when there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range or if there are no indicators present to suggest otherwise (eg a change in the economic environment in which the entity operates), and there is insufficient more recent information available to measure fair value. Following the support from stakeholders for the Board's preliminary views in the DP, the Board decided to propose those requirements in this regard, with the aim to mitigate measurement complexities for investments in unlisted equity instruments.
- BC74 The Board observed that the impairment loss provisions in AASB 9 are unduly complex for basic financial assets held by Tier 3 entities, for which it is proposing to develop simpler financial instruments reporting requirements. Consequently, the Board decided to develop simpler Tier 3 impairment requirements for basic financial assets measured at cost. Consistent with its preliminary view on impairment of non-financial assets (see paragraphs BC115–BC120), the Board decided to propose a requirement for an impairment loss to be recognised only when it is probable that some or all of the amount owed will not be collectible. The impairment loss is to be measured at the anticipated uncollectible amount. The Board considers that one potential alternative to its proposals, being the simplified expected credit loss model in AASB 9 applying to trade receivables, would not represent a sufficiently proportionate response for Tier 3 entities, which are unlikely to have sophisticated credit risk management policies.

Disclosures

- BC75 Consistent with the Board's approach described in paragraphs BC66–BC74, the Board proposed simpler disclosures compared to those required for Tier 2 entities as well as those required by the *IFRS for SMEs*, reflecting the Board's proposals regarding the R&M requirements for financial instruments.

Fair value measurement

- BC76 The Board expressed preliminary views in the DP that the future Tier 3 Standard should allow or require fair value measurements of particular financial instruments and non-financial assets (such as property, plant and equipment), and that the Tier 3 Standard should be consistent in principle with the Tier 2 framework and guidance for fair value measurements in AASB 13 *Fair Value Measurement*. The Board noted that this approach should avoid costs of misinterpretation and retraining that would potentially be incurred if another source of guidance on fair value measurement were specified for Tier 3 entities. Consequently, the Board expressed a preliminary view in the DP that Tier 3 entities should apply the definition of 'fair value' in AASB 13 and estimate fair value by reference to a specified hierarchy and a non-financial asset's highest and best use but expressed in a manner easier to follow for preparers who are not accounting experts.
- BC77 As an alternative to the approach described in paragraph BC76, the Board considered whether to permit Tier 3 entities to use other current value measurement bases as 'shortcuts' to estimate fair value. For example, the Board considered whether it should permit an entity to use, on a stand-alone basis, a rateable or other government valuation or the recent market selling price of a similar asset. The Board rejected such valuation 'shortcuts' because it was concerned that they might not result in measurements that represent faithfully the value of the asset held (eg rateable value calculation bases might differ between jurisdictions). In addition, the Board noted that Tier 3 entities would not be required to apply a revaluation model to their non-financial assets, which largely negates any need for valuation 'shortcuts'.
- BC78 Overall, stakeholders' feedback on the DP agreed with the Board's preliminary views. In response to a view that Tier 3 entities should be permitted to use historical cost as an approximation of fair value to reduce the cost and the potential volatility of fair value measurements, the Board concluded that, whilst historical cost might in particular circumstances (eg for some recently purchased assets) coincide closely with the amount of an asset's or a liability's fair value, deeming historical cost to represent fair value often would not result in faithful representation of fair value. In addition, Tier 3 entities would not be required to apply a revaluation model to their non-financial assets and they generally could simply elect to measure non-financial assets using the (historical) cost model.
- BC79 In light of that feedback, the Board decided to reflect its DP preliminary views in its proposals in this ED. However, the Board decided to propose further simplifications by providing a practical expedient for identifying when a higher and better use of a non-financial asset than its existing use would exist (see paragraph BC80) and excluding guidance on the fair value hierarchy (see paragraphs BC83–BC85). The Board also proposes to simplify the application of fair value measurements by including guidance specific to Tier 3 entities; the specific reasons for that proposed guidance are set out in paragraphs BC81 and BC82 and paragraphs BC86 and BC87. The Board's reason for excluding the disclosure requirements about fair value measurements in AASB 13 is set out in paragraph BC88.

Highest and best use

Practical expedient

- BC80 The Tier 2 requirements in AASB 13 require the fair value measurement of a non-financial asset to be based on the asset's highest and best use (paragraph 27); that Standard also states a rebuttable presumption that an asset's current use is its highest and best use (paragraph 29). To achieve the simplification objectives of the Tier 3 Standard, the Board proposes in paragraph 11.7 of the ED guidance clarifying (and limiting) the circumstances in which the presumption that an asset's current use is its highest and best use may be rebutted. Paragraph 11.7 states that a non-financial asset's current use is presumed to be its highest and best use unless it is highly probable that, within one year of the asset's measurement date, the asset will either be sold to a buyer who would use the asset for a different use or be redeployed by the entity..

Financially feasible use

- BC81 The 'financially feasible use' requirement in AASB 13, paragraph 28 (c) for identifying the highest and best use of a non-financial asset refers to generating an investment return that market participants would require from an asset. To express that criterion in a manner easier for preparers who are not accounting experts to adapt it to a Tier 3 context, the Board decided to modify the text of paragraph 28(c) of AASB 13 included in

the Tier 3 Standard to avoid limiting the fair value of any non-financial asset to the present value of cash inflows generated directly by the asset.

- BC82 The proposal in this ED that would replace paragraph 28(c) of AASB 13 refers to an assessment whether the use makes financial sense, ie it would generate at least a market rate of return on investing in the asset or sufficient goods/services to beneficiaries to justify buying the asset (paragraph 11.6(c)).

Fair value hierarchy

- BC83 As noted in paragraph BC76, the DP stated the Board's preliminary view that fair value measurements in financial statements of Tier 3 entities should be determined by reference to a specified hierarchy. For the reasons in paragraphs BC84–BC85, on redeliberating that preliminary view, the Board decided to propose not to include in the Tier 3 Standard the fair value hierarchy set out in paragraphs 72–90 and B35 and B36 of AASB 13.
- BC84 AASB 1060 includes none of AASB 13's disclosure requirements for fair value measurements. Because the Board proposes that disclosure requirements for Tier 3 entities should not be more onerous than the disclosure requirements for Tier 2 entities, the Board proposes that Tier 3 entities should not be required to make the disclosures about their fair value measurements in AASB 13, although some disclosures about fair value measurements would be required by various sections of this Standard (consistent with AASB 1060).
- BC85 AASB 13 (paragraph 61) and paragraph 11.8 of this ED require fair value estimates to maximise the use of relevant observable inputs and minimise the use of unobservable inputs; the fair value hierarchy classifies the outcomes of applying that principle and requires differentiated disclosures for different levels of the fair value hierarchy (the IASB's Basis for Conclusions on IFRS 13 *Fair Value Measurement*, paragraphs BC166–BC221, does not identify any other role for the fair value hierarchy). In addition, that Basis for Conclusions states that "IFRS 13 does not contain a hierarchy of valuation techniques ..." (paragraph BC142). For the reasons explained above, the Board considers that guidance on the fair value hierarchy would only be necessary if disclosure were required of the levels of the fair value hierarchy at which the fair values of assets are measured. The Board also notes that applying the fair value hierarchy might involve significant judgements and be costly for Tier 3 entities to apply, without significant apparent benefits to users of financial statements of those entities. Consequently, the Board concluded that, since it does not propose adopting the disclosure requirements for fair value measurements in AASB 13 (see paragraph BC88), it would not be proportionate to include the fair value hierarchy in the Tier 3 Standard.

Cost approach

- BC86 Paragraph 11.10 of the ED was included to provide brief guidance on the cost approach (also termed the current replacement cost method) to estimating a non-financial asset's fair value. The cost approach is likely to be important to fair value measurements (where used) of a range of non-financial assets held by Tier 3 entities, particularly because the income approach would have limited application when assets are not held primarily to generate net cash inflows.
- BC87 Although the objective of a fair value measurement of an asset is to estimate the asset's selling price, sometimes the observable selling price of a similar asset might not represent faithfully the selling price of the asset being measured (in terms of paragraph 11.8, it might not be a *relevant* observable input). For example, the only observable selling price for a similar asset to an asset held by the entity might be for a sale of that similar asset for scrap value at the end of its economic life, eg because the asset is specialised. Where the entity's asset has not reached the end of its economic life, its selling price might be represented more faithfully by, for example, using the cost approach (ie current replacement cost) referred to in paragraphs 11.9(b) and 11.10.

Disclosures

- BC88 As noted in paragraph BC84, AASB 1060 includes none of AASB 13's disclosure requirements for fair value measurements. Because the Board proposes that disclosure requirements for Tier 3 entities should not be more onerous than the disclosure requirements for Tier 2 entities, the Board proposes that Tier 3 entities should not be required to make the disclosures about their fair value measurements in AASB 13, although some disclosures about fair value measurements would be required by various sections of this Standard (for example, consistent with AASB 1060, this ED proposes that, for revalued classes of property, plant and equipment, disclosure is made of the effective date of the revaluation and whether an independent valuer was involved).

Investment in associates and joint arrangements (including joint ventures)

- BC89 The Board had not received feedback from stakeholders in its preliminary outreach that entities were concerned about the accounting requirements for an entity's investments in its associates and joint ventures under AASB 128 *Investments in Associates and Joint Ventures*. As such, the Board considered it may be appropriate to continue to require entities to apply the equity method of accounting for an investor's investments in associates and joint ventures. However, the Board observed that such an approach might not be consistent with its preliminary view in the DP to allow Tier 3 entities to prepare separate financial statements rather than consolidated financial statements as their only set of financial statements as per paragraph BC47 where the entity's subsidiaries are not consolidated.
- BC90 Consequently, the Board expressed the following preliminary views in the DP regarding requirements for investments in associates and joint ventures:
- (a) a parent entity that presents consolidated financial statements or an entity that is not a parent entity applies the equity method of accounting to its investments in associates and joint ventures, consistent with Tier 2 requirements;
 - (b) a parent entity that presents separate financial statements as its only financial statements does not apply the equity method. Instead the parent entity's investments in associates and joint ventures are measured either at cost or at fair value through other comprehensive income; and
 - (c) an investor that presents separate financial statements, whether in addition to consolidated financial statements or equity-accounted financial statements or as its only financial statements measures its investments in associates and joint ventures either at cost or at fair value through other comprehensive income.
- BC91 Most stakeholders agreed with the Board's preliminary views in the DP outlined in paragraph BC90 as they consider entities with investments in associates and joint ventures might be complex, therefore warranting reporting requirements that are consistent with Tier 2 requirements. However, a few stakeholders disagreed and considered that an entity, whether a parent entity or an investor that elects to present separate financial statements only should be given the accounting policy choice to apply the equity method to measure its investments in associates and joint ventures. They considered that the reporting requirements proposed for investments in associates and joint ventures should be consistent with the reporting requirements proposed for investments in subsidiaries, to allow an accounting policy choice to measure the investments at cost, at fair value or by applying the equity method (see paragraph BC55).
- BC92 The Board considered the feedback in conjunction with its decision on the definition of notable relationships and decided to propose in this ED to require an entity to measure its investments in associates and joint ventures consistently with how it measures its investments in notable relationship entities noted in paragraph BC57. This approach allows preparers to elect an accounting policy to measure investments in associates and joint ventures that meet their users' needs rather than restricting the measurement bases depending on the type of entity as described in paragraph BC90. It also ensures the accounting for investments in associates and joint ventures in separate financial statements complements the proposed accounting for notable relationship entities while maintaining consistency with Tier 1 and Tier 2 requirements.

Intangible assets

- BC93 The Board did not express a preliminary view in the DP on Tier 3 reporting requirements for intangible assets because the Board sought feedback on whether intangible assets would commonly be used by Tier 3 entities and, if so, in what manner.
- BC94 Stakeholders expressed mixed views on whether intangible assets were commonly held and recognised by Tier 3 entities. Many stakeholders noted that some intangible assets, such as software, licences and trademarks are most commonly held by Tier 3 entities. These stakeholders requested guidance on accounting for intangible assets, especially due to an increasing trend to use more intangible assets that is also expected to continue in the future. However, some stakeholders commented there were no, or immaterial, intangible assets held by Tier 3 entities. Therefore, they did not consider a need to include specific accounting requirements for intangible assets in the Tier 3 Standard.
- BC95 After considering the feedback, the Board decided to propose in this ED to require entities to recognise intangible assets consistent with Tier 2 reporting requirements (ie AASB 138 *Intangible Assets*) except for prohibiting recognition of internally generated intangible assets. The Board considered the simplification to be proportionate for Tier 3 entities, noting that it is often difficult to distinguish between cost arising in a research phase or a development phase to apply the recognition criteria in AASB 138. To further simplify the requirements, the Board also decided to propose in this ED that:

- (a) the useful life of all indefinite-lived intangible assets will be assessed as finite based on management's best estimate, but not exceeding ten years; and\
 - (b) reviewing the useful life, residual value and amortisation method of intangible assets is required only if a trigger event or indicator occurs, consistent with those developed for impairment (see paragraph BC116(b)), since the last annual reporting date.
- BC96 The Board considered another alternative approach to allow entities to make an accounting policy choice, thereby giving flexibility to either expense or recognise internally generated intangible assets in accordance with AASB 138. However, the Board considered that allowing an accounting policy choice might be challenging for preparers to apply because it increases the need to apply judgement and might result in inconsistencies and a lack of comparability amongst entities applying the Tier 3 Standard. The Board also considered aligning subsequent measurement of intangible assets with Tier 2 requirements, with simplification of expression only. However, such an approach might not provide enough simplification to cater for Tier 3 entities that, based on stakeholder feedback, are expected to use intangible assets more frequently in the future.
- BC97 The Board also heard requests from some stakeholders to consider developing simplified accounting requirements to account for configuration or customisation costs in a cloud computing arrangement. However, the Board decided not to develop such guidance for Tier 3 entities because it would not necessarily reduce the complexity of assessing the capitalisation of configuration or customisation costs in cloud computing arrangements and might have unintended implications for other NFP entities applying AASB 138. For similar reasons, the Board decided not to develop additional guidance on the development costs of a website that facilitates donations to the NFP entity beyond the guidance already available in AASB Interpretation 132 *Intangibles Assets – Web Site Costs*.

Business combinations

- BC98 The Board did not develop a preliminary view on Tier 3 reporting requirements in relation to business combinations and goodwill because the Board initially considered possible topics to scope out of the Tier 3 Standard would include business combinations, as noted in paragraph BC21. Stakeholders in their feedback on the preliminary views in the DP commented that business combinations are not uncommon and there may be an increasing trend for Tier 3 entities to merge with or acquire other entities. After considering the stakeholder feedback, the Board decided to develop Tier 3 reporting requirements regarding accounting for business combinations and goodwill.
- BC99 Based on the stakeholder feedback calling for simplification to develop simpler and proportionate requirements for the accounting of business combinations for Tier 3 entities and that the approach in AASB 3 *Business Combinations* might be too complex, and therefore that it would be more appropriate to allow Tier 3 entities to recognise the previous Tier 3 entity's assets at book value, the Board decided to propose in this ED to allow entities to measure the assets and liabilities of the combined entity at their pre-combination book values for all combinations. In its deliberations to determine the requirements, the Board noted the possible risk that some Tier 3 entities that are part of the business combination may not have recognised their assets or liabilities, for example Tier 3 entities that applied cash accounting. In this regard, the Board decided to propose requiring material assets and liabilities that do not have a carrying amount recognised in accordance with AAS to be measured initially at their combination-date fair value, except for donated non-financial assets the entity has elected to initially measure at cost as per paragraphs 12.8(a), 14.6(a), 15.4(a) or 16.4(a). The Board considered this exception would align with its proposals to provide entities an accounting policy choice to initially measure non-financial assets acquired for significantly less than fair value, as noted in paragraph BC114.
- BC100 After considering the cost of restating pre-combination comparative information and to avoid doubt about when the combination occurred, the Board decided to propose in this ED that the combination date is deemed to be at the beginning of the reporting period during which the entity combination occurred. This simplification would address stakeholder concerns about challenges and costs in identifying when an acquirer obtains control of the acquiree, similar to the challenges and costs in identifying a complete set of subsidiaries of Tier 3 entities noted in paragraph BC46. The Board also considered whether to provide an option for entities to restate comparative information for one or more prior periods as if the entity combination occurred in a prior period. However, the Board decided not to provide guidance on the presentation of comparative information for the periods prior to the combination date as a form of simplification, to avoid an entity needing to obtain additional information in order to present pre-combination comparative information.
- BC101 The Board noted that its proposals would not give rise to recognition of goodwill, which omits recognising an asset representing the future economic benefits reflected in the price paid by the acquirer in an acquisition. However, the Board heard from stakeholder feedback that mergers and amalgamations are generally the most common combinations and goodwill is often not recognised by Tier 3 entities. As such, the Board decided to propose in this ED that any differences between the consideration paid and the net assets recognised in the

combination (based primarily on pre-combination book values) are recognised directly in equity to balance the cost to preparers with the information usefulness to users.

- BC102 As an alternative to the approach noted in paragraph BC99 the Board considered whether to allow entities an option to measure the assets and liabilities of the combined entity at their pre-combination book value for certain business combinations and require the Tier 2 requirements for all other combinations, or simply align with Tier 2 requirements with simplifications. However, the Board considered it would add unnecessary complexity for preparers to determine which method should be applied to account for business combinations including Tier 2 requirements, and even with further simplifications such an approach might not be proportionate for Tier 3 entities. The Board also decided to refer to ‘entity combinations’ instead of ‘business combinations’ in the Tier 3 Standard, to use expression reflecting the operating environment of Tier 3 entities.

Leases

- BC103 In forming its preliminary views in the DP, the Board observed that leases appear to be common and possibly material transactions to entities that may prepare Tier 3 GPFS depending on the applicable financial reporting requirements. While the Board considered that users might benefit from comprehensive information stemming from requirements consistent with AASB 16 *Leases*, the Board considered that applying AASB 16 to account for leases would be likely to impose proportionately greater costs for Tier 3 entities. Consequently, the Board expressed a preliminary view in the DP to:
- (a) develop a requirement for a lessee to recognise lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user’s benefit, thereby removing the need for a lessee to recognise a right-of-use asset. A corresponding requirement would apply to lessors; and
 - (b) supplement that proposed accounting approach with disclosure requirements about the entity’s outstanding lease commitments.
- BC104 The Board noted that its proposed approach might provide less information to users of financial statements of a Tier 3 entity about the entity’s underlying financial position, especially for assets that have been, in essence, purchased by the entity on a payment plan. However, the Board considered not requiring the recognition of lease assets and lease liabilities would impose less costs on preparers than the approach in AASB 16, and:
- (a) disclosures of an entity’s lease commitments could provide the users of these financial statements with sufficient understandable, and hence useful, information;
 - (b) Tier 3 entities may elect to prepare Tier 1 or Tier 2 GPFS; and
- BC105 concessionary leases (ie leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives) would be accounted for in a similar manner under AASB 16.
- BC106 Overall, stakeholders agreed with the Board’s preliminary views. In light of that feedback, the Board decided to reflect its preliminary views in its proposals in this ED. In relation to its preliminary view to require disclosure of the entity’s dependence on acquisitions of non-financial assets at significantly less than fair value, the Board decided to extend the scope of that proposed requirement to also include concessionary leases.

Revenue

- BC107 After considering stakeholders’ feedback during preliminary outreach, the Board expressed preliminary views in the DP that Tier 3 not-for profit entities:
- (a) should not be required to apply two different Standards (AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*) to account for their various types of income (as is required of Tier 2 NFP entities) or, similarly, to account for income based on the nature of the transaction (eg donations, sales or grants); and
 - (b) should defer recording income from inflows of resources if there is an unsatisfied commonly understood expected use of those resources (eg to transfer goods or services to customers or beneficiaries, or to use the resources over a specified period). A common understanding does not require a documented explicit stipulation by a transferor of a resource, an enforceable right of the transferor (eg a right of return of a resource if not used as expected) or a mandated threshold of specificity regarding how the resources are to be used.
- BC108 Other approaches to the recording of income considered by the Board are noted below, together with the key reasons why the Board did not advocate them in its preliminary views in the DP:

- (a) not requiring a distinction for the accounting for inflows of resources. This simple approach might not reflect faithfully that some transferred resources are expected to be spent or used in a future period and should be accounted for differently from donations;
- (b) basing the distinction for the accounting for inflows of resources on either the nature of transactions or whether the resource provider imposed documented explicit stipulations on the expenditure or use of those transferred resources. The Board noted that the distinction by the nature of the transaction would appear to involve a similar two-step process as applied in AASB 15 and AASB 1058, rather than a simplification. Requiring a distinction based on documented explicit stipulations might be challenging to understand for Tier 3 entities that lack detailed financial knowledge and might not result in deferral of recording income even though the Tier 3 entity is expected to spend or use the resources in the future;
- (c) requiring a Tier 3 entity to assess whether the common understanding between it and the resource provider about the future expenditure or use of transferred resources is 'sufficiently specific' based on a simplified version of the criteria for that principle in AASB 15. Stakeholder feedback on outreach before the DP indicated that those criteria are inherently complex and require judgements that would often be prone to inconsistent application; and
- (d) requiring deferral of recording income when conditions are attached to the inflows of resources that are enforceable by the transferor, such as a 'use or return' condition or other means of enforcement. The Board considered that this approach would not reduce the current complexity of accounting for income and would not align with stakeholders' expectations that recording income should be deferred when transferred resources are expected to be spent or used in a future period, regardless of whether enforceable conditions exist.

BC109 Overall, stakeholders agreed with the Board's preliminary views. In light of that feedback, the Board decided to reflect its preliminary views in its proposals in this ED. Clarifications of terms used in the DP, such as 'common understanding', were included in the ED as suggested by some stakeholders who responded to the DP. In addition, as suggested by some stakeholders, proposed guidance on principal vs agent considerations (eg when a charity receives a grant on behalf of another charity and then forwards it to that other charity) was included in the ED. The Board expressed in the DP a preliminary view that the Tier 2 approach of permitting, but not requiring, a Tier 3 entity to record as income volunteer services received (or a class thereof) if the fair value of those services can be measured reliably should also be applicable to Tier 3 entities. Overall, the stakeholder feedback supported the Board's view; in light of that feedback, the Board decided to propose that policy in this ED. The Board also decided to include a proposed requirement to disclose sufficient information about volunteer services to enable an understanding of the effects of volunteer services on the entity's operations, including the entity's dependence on volunteer services for the achievement of its objectives and any known information about impending significant changes to the nature and amount of volunteer services. This would not require quantifying the value of volunteer services received.

Non-financial assets acquired for significantly less than fair value

BC110 The Board recognised that Tier 3 entities may have difficulties in obtaining fair value for donated non-financial assets in developing the Board's preliminary view outlined in paragraph BC76 that the Tier 3 Standard should be consistent in principle with the Tier 2 framework including AASB 13 *Fair Value Measurement*. The Board expressed a preliminary view in the DP to allow an accounting policy choice (similarly to that applicable to subsequent measurement of property, plant and equipment and other non-financial assets) to initially measure assets acquired for significantly less than fair value at either their cost or fair value (current replacement cost for inventories). The Board noted the difference between a donated non-financial asset's fair value and cost on initial measurement is recognised in other comprehensive income rather than as income in the profit or loss if those assets were initially measured at cost and subsequently revalued to fair value. As such, the Board also formed a preliminary view to restrict entities from subsequently revaluing non-financial assets donated or granted that were initially measured at cost, to avoid arbitrary consequences for the application of regulatory reporting thresholds. Some stakeholders disagreed with different aspects of the Board's preliminary view, where:

BC111 some stakeholders considered allowing entities to initially measure donated non-financial assets at cost would result in the omission of important information relating to philanthropic giving. For example, they recognised that some entities reporting to the Australian Taxation Office would already be required to report on the market value of non-cash donations to deductible gift recipient-endorsed entities. However, other stakeholders supported allowing the accounting policy choice outlined in paragraph BC110 as it caters for different entities' circumstances and the approach is a proportionate response for Tier 3 entities. The Board considered the feedback received and decided to require in the Standard the accounting policy choice described in paragraph BC110; and

- BC112 some stakeholders considered the management of an entity would be bounded by previous decisions not to allow entities to revalue non-financial assets acquired for significantly less than fair value that were initially measured at cost, even if a revaluation provides more relevant information
- BC113 When forming its preliminary views, the Board considered an alternative approach to only require assets with useful lives of 12 months or more, or where the entity intends to hold those assets for more than 12 months, to be initially measured at fair value to limit costs to preparers. However, the Board was concerned that the need for entities to assess whether an asset has a useful life of 12 months or more would add unnecessary complexity.
- (a) Most stakeholders supported allowing the accounting policy choice outlined in paragraph BC110 as it caters for different entities' circumstances and the approach is a proportionate response for Tier 3 entities. However, .
- BC114 The Board considered the feedback received and decided to propose, consistent with its preliminary view in the DP, the accounting policy choice described in paragraph BC110 for entities to initially measure non-financial assets acquired for significantly less than fair value. The Board considered its proposal is balanced with disclosures that would provide information to users about these assets and consistent with its decisions to simplify lease accounting (by not requiring Tier 3 entities to recognise right-of-use assets). The Board also considered the feedback that management of the entity would be bounded by the previous management's decisions noted in paragraph **Error! Reference source not found.** and decided to allow entities an accounting policy choice to subsequently measure those assets at cost or at fair value regardless of the initial-measurement policy, consistent with Tier 2 principles.

Impairment of non-financial assets

- BC115 The Board recognises the importance of including impairment requirements in its Tier 3 Standard, even though initial research suggested that impairment losses for non-financial assets appear to be uncommon for Tier 3 entities. The Board considered that Tier 3 entities might consider impairment only when a significant event occurs and it is clear that the asset's carrying amount is no longer recoverable. Including impairment requirements is important to ensure that non-financial assets would not be carried at too high a value and provide a faithful representation of the entity's financial position and performance.
- BC116 In recognition of the complexities in the existing impairment model in AASB 136 *Impairment of Assets*, the Board expressed a preliminary view in the DP that the impairment requirements in the Tier 3 Standard should be comprised of the following elements:
- (a) only non-financial assets subsequently measured at cost or deemed cost to be subject to impairment testing;
- (b) only to consider whether a non-financial asset is impaired when the asset has been physically damaged or when its service potential might have been adversely affected by a change in the entity's strategy or changes in external demand for the entity's services;
- (c) a non-financial asset is impaired if its carrying amount exceeds its recoverable amount, where the recoverable amount is higher of its fair value less costs to sell and value in use, with a rebuttable presumption that fair value less costs to sell is the most appropriate measure of a non-financial asset's recoverable amount because non-financial assets are generally not held by NFP entities to generate cash flows; and
- (d) BC115 non-financial assets that do not generate cash flows that are largely independent from other assets can be grouped into cash-generating units.
- BC117 The Board also expressed a preliminary view not to develop Tier 3 reporting requirements to address the reversal of previously recognised impairment losses because, as indicated in paragraph BC115, Tier 3 entities generally consider impairment when there is a significant event such as flood damage. Therefore, consistent with the Board's preliminary view to limit the impairment indicators, the Board considered it unnecessary to develop a requirement to account for the reversal of impairment losses since it is likely the significant event would make the asset's carrying amount permanently irrecoverable.
- BC118 When forming its preliminary views, the Board considered alternative approaches to those described in paragraph BC116, including:
- (a) requiring all non-financial assets or only non-current non-financial assets to be subject to impairment testing. However, the Board considered non-financial assets that were subsequently carried at fair value would less likely be subject to impairment testing. The Board noted that, in accordance with AASB 136, NFP entity assets held for continuing use of their service capacity that are regularly revalued to fair value are not required to be assessed for impairment. Additionally,

having different reporting requirements for current and non-current non-financial assets would add unnecessary complexity.

- (b) requiring in-scope non-financial assets to be assessed for impairment indicators annually or periodically. However, considering the types of non-financial assets most commonly held by Tier 3 entities, such as property, plant and equipment, the Board noted their recoverable amount is less likely to fluctuate from year to year. Therefore, the Board did not consider it necessary to require in-scope assets to be assessed for impairment annually or periodically. The Board also considered it would be unhelpful if the Standard does not include explicit requirements for when in-scope assets should be assessed for impairment.
 - (c) develop an alternative approach to calculate the recoverable amount or allow flexibility for Tier 3 entities to determine the recoverable amount using a methodology they consider most appropriate. However, the Board concluded that developing an alternative approach or requiring application of significant judgement may introduce unnecessary complexity for preparers and auditors, or introduce inconsistencies with the principles applied in other Tier 3 requirements. Tier 3 entities may also lack the expertise to determine an appropriate methodology in determining the recoverable amount.
- BC119 Overall, stakeholder feedback supported the Board's preliminary views for a simplified impairment model described in paragraph BC116. While a few stakeholders considered the impairment model might still be complex for Tier 3 entities, the Board decided that the other alternative approaches outlined in paragraph BC118 could lead to possible assurance issues. In light of the feedback, the Board decided to reflect its preliminary views in its proposals in this ED. Some stakeholders also considered disposing of an asset is arguably similar to where an asset is damaged or an entity no longer plans to use it at full capacity and suggested that assets being held for sale could be included as an impairment indicator. However, the Board decided to retain the proposed requirements for entities to apply the Tier 2 requirements for assets held for sale to avoid entities needing to assess for impairment whenever the assets are planned to be, or are, held for sale. As such, the Board also confirmed its preliminary view in this ED to limit the impairment indicators to those identified in paragraph BC116(b) rather than including any additional indicators.
- BC120 As a form of further simplification, the Board also decided not to include guidance on recording and measuring an impairment for cash-generating units because Tier 3 entities are unlikely to need to refer to such guidance. The Board considered its proposal not to require or permit the recognition of goodwill in Tier 3 entity combinations noted in paragraph BC99 would also remove the need to provide guidance on the impairment of cash-generating units.

Employee benefits

- BC121 The Board expressed a preliminary view in the DP to simplify the requirements of AASB 119 *Employee Benefits* for short-term paid absences and other long-term employee benefits based on initial stakeholder outreach indicating the challenges in accounting for outstanding employee benefit obligations. To strike an appropriate balance between reducing the complexities and preparation costs for Tier 3 entities and maintaining useful information and relevance to users, the Board expressed preliminary views in the DP that Tier 3 reporting requirements of employee benefits should require:
- (a) non-accumulating paid absences and termination benefits are to be recognised when the relevant obligating event occurs, for example when the employee becomes sick or on termination of employment. The Tier 3 Standard will not include specific reporting requirements for termination benefits since Tier 3 entities are unlikely to incur termination benefits or have defined benefit plans;
 - (b) recognition of all other employee benefits when an employee has rendered the services that entitle the employee to consideration, regardless of whether the entitlement is vesting or non-vesting. All employee obligations are measured at an undiscounted amount without the need for an entity to consider the present value of the obligation, to remove the need to categorise employee benefits into short or long-term, whereby:
 - (i) an expense is measured at the undiscounted amount of the employee's obligations; and
 - (ii) a liability is recognised at the undiscounted future outflow expected to be required to settle the present obligation. The liability is presented as current or non-current depending on whether the service conditions are met, or expected to be met, wholly before 12 months after the end of the reporting period in which the employees render the related service.
- BC122 The Board also heard from initial stakeholder outreach that determining the likelihood of employee entitlements vesting, for example, for long-service leave can be complex. Therefore, the Board decided to seek stakeholder views whether it is possible to develop further requirements to support the assessments of

the likelihood that an outflow of economic benefits will be required to settle the obligation based on industry-specific probability guidance to calculating long-service leave.

- BC123 As an alternative approach to paragraph BC121, the Board considered whether all paid absences should be treated as non-accumulating benefits and to recognise expenses when the absences occur. Such a requirement would be easier to understand and apply as the entity's obligations for outstanding employee benefits would not be recognised as a liability. However, the Board considered this approach would unnecessarily depart from accrual accounting and the resultant reported financial position would not provide users with a complete picture of the entity's commitments and solvency given the relative significance and occurrence of employee benefit balances.
- BC124 Overall, stakeholders agreed with the Board's preliminary views noted in paragraph BC121. However, some stakeholders expressed concerns that requiring an entity to recognise liabilities for non-vesting accumulating employee benefits, such as sick leave, would not align with current practice where sick leave provisions generally are not recognised unless the amounts are due and unpaid to an employee at the end of the reporting period. Stakeholders also considered that requiring an entity to consider future pay increases for determining a provision for employee benefits would add unnecessary complexity. The Board noted its preliminary views that liabilities for employee obligations measured at an undiscounted amount would largely negate any future pay rise. Therefore, the Board decided to propose in this ED not to require an entity to consider future pay increases when determining a provision for employee benefits measured at the undiscounted future outflow expected to be required to settle the present obligation.
- BC125 While stakeholders supported the Board's consideration of whether to develop further requirements to support Tier 3 entities in determining the likelihood of employees becoming entitled to a benefit such as long-service leave, the feedback did not identify any industry-specific guidelines currently applied by Tier 3 entities and provided diverse views of possible simplification. Although some stakeholders suggested that a probability calculation could be simplified to require set probabilities (eg, when recognising long-service leave provisions, assuming for convenience a 100 per cent probability that all employees will become entitled to a vested benefit, or accruing the benefits attributable to all employee services for employees having completed 50 per cent or more of their vesting period for the entitlement), some stakeholders were not supportive of developing any guidance in this regard as it could become outdated and may not factor in changes in the workforce. Ultimately, the Board considered setting a probability assessment that is not based on the entity's facts and circumstances can create unintended consequences and may result in less relevant and faithful financial information over time.

Related party disclosures

- BC126 As noted in BC9, the Board decided on an approach to developing disclosure requirements with AASB 1060 to act as the point of reference for the possible Tier 3 disclosure requirements for transactions where Tier 3 R&M requirements are the same or similar to corresponding Tier 2 R&M requirements. While the Board did not express preliminary views on the particular requirements for related party disclosures in the DP, stakeholders provided feedback on the importance of related party disclosures for users. Some stakeholders also considered some related party disclosures required by Tier 1 or Tier 2 reporting requirements might be onerous for Tier 3 entities and should not be required of Tier 3 entities, for example:
- (a) transactions like donations, where no benefit is received by the related party, should be exempt from the disclosure requirements; and
 - (b) regarding compensation paid to key management personnel, it might be more useful to users to require disclosure of the relevant award or salary band rather than the total amount of benefits paid.
- BC127 The Board considered the feedback and decided to propose that Tier 3 disclosure requirements for related party transactions should be consistent with Tier 2 requirements because, as noted by stakeholder feedback above, related party disclosures are important for users, especially since related parties might enter into transactions that unrelated parties would not. The Board also noted that existing NFP private sector entities, such as charities, are already required under the ACNC legislation to make related party disclosures regardless of the size of the charity.
- BC128 However, the Board decided that disclosures would not be required for donations from related parties unless evidence indicates the donations could influence the entity's activities or use of resources (see paragraph 28.10). The Board considered these types of transactions are unlikely to influence the pursuit of the separate independent interest of the Tier 3 entity, and other jurisdictional frameworks provide a similar exemption for these types of related party transactions. To further simplify the disclosure requirements for Tier 3 entities, the Board also decided not to require key management personnel disclosures, noting the relevant legislation or regulations may still require key management personnel disclosures for certain NFP private sector entities.

Updating Tier 3 reporting requirements

- BC129 The AASB expects to propose amendments to the Tier 3 reporting requirements by publishing EDs when considered appropriate. Such EDs would be developed only when there is a substantive case for amendments, in applying the *AASB Due Process Framework for Setting Standards*, and would take into account the findings of the latest post-implementation review of domestic Standards or Interpretations and feedback from agenda consultations. In developing those EDs, the AASB would consider new and amended Tier 1/Tier 2 reporting requirements as well as specific issues brought to its attention regarding the application of the Tier 3 reporting requirements.
- BC130 The AASB expects that amendments might be made to the Tier 3 requirements in accordance with a five-year periodic review cycle. However, on occasion the AASB might identify an urgent matter for which amendment of the Tier 3 reporting requirements needs to be considered outside the periodic review process. Such occasions are expected to be rare.
- BC131 Unless and until the Tier 3 reporting requirements are amended, any changes the AASB might make or propose regarding Tier 1 or Tier 2 reporting requirements would not apply to the Tier 3 reporting requirements. The proposed Tier 3 Standard is a stand-alone document. Entities applying the Tier 3 reporting requirements would not be able to anticipate or apply changes made to Tier 1 or Tier 2 reporting requirements unless and until those changes are incorporated into the Tier 3 reporting requirements. However, this would not preclude an entity that applies the Tier 3 reporting requirements from applying the most recent accounting policy in a Tier 2 reporting requirement pursuant to applying paragraphs 9.4 and 9.5 of the Standard (ie in the absence of specific guidance in the Tier 3 reporting requirements, an entity may elect to consider the requirements and guidance in Tier 2 reporting requirements dealing with similar and related issues).

Transitional requirements

- BC132 The Board considered whether specific transitional requirements needed to be provided to Tier 3 entities when they first apply the Tier 3 Standard, having previously prepared either special purpose financial statements or Tier 1 or Tier 2 GPFS. While the Board did not specifically seek feedback on transitional provisions in the DP, some stakeholders indicated that the transitional provisions provided through *AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* to for-profit entities when they first transition from SPFS to GPFS worked well and would be appropriate for Tier 3 entities. Some stakeholders indicated that entities may have selectively applied some AAS, such as *AASB 16 Leases*. Therefore, these entities would need guidance on whether they would be permitted to carry forward their existing Tier 1 or Tier 2 R&M accounting for balances existing under Tier 1 or Tier 2 reporting requirements when they first transition to the Tier 3 Standard. Given the number of Tier 3 entities that may be affected by the removal of SPFS compared to for-profit entities, some stakeholders considered a longer transitional period should be given to ensure entities have sufficient time to transition from SPFS to GPFS.
- BC133 The Board considered the stakeholder feedback and decided to propose in this ED transitional requirements based on *AASB 1 First-time Adoption of Australian Accounting Standards* with simplification of the expression. The Board considered this approach would be consistent with developing a stand-alone standard as noted in paragraph BC19 rather than directing entities to apply AASB 1. Entities would be able to apply the transitional requirements or apply the Tier 3 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 comparative information presented for prior period(s). The Board also decided to provide optional relief for Tier 3 entities transitioning to Tier 3 requirements for the first time:
- (a) not to be required to provide comparative information for new disclosures or distinguish corrections of prior period errors from changes in accounting policies for entities transitioning from SPFS to preparing GPFS, thereby providing the same optional relief provided to for-profit entities in *AASB 2020-2*; and
 - (b) to elect to continue applying any Tier 1 or Tier 2 R&M and disclosure requirements to balances that existed on the transition date for entities transitioning from Tier 1 or Tier 2 GPFS to Tier 3 GPFS without needing to make adjustments, which may be more complex.
- BC134 When forming its proposals for this ED, the Board considered an alternative approach for entities transitioning to Tier 3 reporting requirements for the first time, to elect to restate comparative information presented for prior period(s) or:
- (a) for an entity that previously prepared SPFS, to apply the Tier 3 requirements prospectively and attach its previous financial statements and a list of its previously adopted accounting policies; and

- (b) for an entity that previously prepared Tier 1 or Tier 2 GPFS, to present comparative information based on the entity's financial statements for the previous period prepared in accordance with Tier 1 or Tier 2 requirements.
- BC135 The Board considered the approach in paragraph BC134 is similar to its proposed approach in this ED, which allows entities not to restate their comparative information presented for prior period(s). However, the Board considered this approach would be inconsistent with the transitional provisions provided to for-profit entities, and allowing entities to attach their previous financial statements might add to the length of the financial statements for the year of transition. The Board also considered replicating the approach provided to for-profit entities in AASB 2020-2 to refer entities to apply AASB 1 directly and to provide the optional relief proposed in paragraph BC134(a) as short-term relief for entities transitioning to Tier 3 requirements for the first time. However, the Board considered requiring entities to apply AASB 1 directly would be more complex and imposing a time limit for the optional relief might not provide sufficient transition support for Tier 3 entities.
- BC136 The Board considered that entities that adopt this Standard in the future might need or desire to adopt Tier 2 or Tier 1 GPFS if, for example, the Tier 3 entity no longer qualifies to apply this Standard due to its size based on the reporting requirements of respective legislation or regulation. A Tier 3 entity may also consider its activities to be more complex and may prefer to adopt the Tier 2 or Tier 1 requirements to better reflect the entity's financial position, financial performance and cash flows for users of their financial statements. Acknowledging the differences in R&M requirements under this Standard compared to Tier 2 or Tier 1 reporting requirements, the Board decided to propose in this ED that entities transitioning from Tier 3 GPFS to Tier 1 or Tier 2 GPFS for the first time would apply AASB 1. Based on similar reasons to those outlined in paragraph BC135 for not imposing a time limit for the optional relief, the Board decided to provide similar transitional requirements in paragraph 18A of AASB 1053 *Application of Tiers of Australian Accounting Standards* to Tier 3 entities transitioning from Tier 3 GPFS to Tier 2 GPFS for the first time, ie not being required to:
- (a) restate comparative information;
 - (b) provide comparative information for new disclosures; or
 - (c) distinguish corrections of errors and changes in accounting policies.

Effective date

- BC137 In considering whether to propose a specific effective date for the Tier 3 Standard in this ED, the Board considered various factors, including:
- (a) the stakeholder feedback requesting a two- to three-year transitional period before the Tier 3 Standard becomes effective, as there would appear to be more Tier 3 entities that would be affected by the removal of SPFS, thus warranting a longer transitional period than the period provided to for-profit entities when they transitioned from SPFS to GPFS under AASB 2020-2 for the first time;
 - (b) the Tier 3 Standard contains simpler accounting requirements which may alleviate the need for a longer transition period. However, the Board is also cognisant that other NFP private sector entities currently preparing SPFS that may elect or be required to move to Tier 1 or Tier 2 GPFS instead of Tier 3 GPFS may require a longer transition period than usual; and
 - (c) in line with the *AASB Due Process Framework for Setting Standards*, the Board seeks to ensure that stakeholders have adequate time to prepare for the implementation of new and amended Standards and, typically, the Board will issue a Standard at least 2 years before its effective date.
- BC138 The Board considered and rejected an alternative approach, being a phased effective date approach, because it would be unnecessarily complex. The Board also noted that it could assess closer to the effective date ultimately selected whether there is a need to provide a further extension to the effective date. Furthermore, the Board noted that many stakeholders supported allowing entities to adopt this Standard prior to a stated effective date.
- BC139 With regard to the above considerations, the Board decided that the effective date of a finalised Standard will be at least three years after its issue. Therefore, in this ED, the Board is not proposing a specific effective date. That will be determined when the Board considers the feedback on this ED. The Board also decided to align the effective date of the proposed Tier 3 Standard with the effective date of amendments to the *Conceptual Framework for Financial Reporting* and other AAS to extend their application to more NFP entities.