

Note to Board members

The objective of this Agenda Paper is to seek the Board's feedback on the draft Tier 3 Exposure Draft (ED) ahead of a Board vote to delegate the finalisation of and approval to issue the Tier 3 ED in **Question 14** of this Agenda Paper. The staff recommendation is for Board members to delegate responsibility for the approval and issue of the Tier ED to the Board Subcommittee, out of session.

Staff have also presented Agenda Paper 3.12 which is a copy of this paper with staff comments in the margin providing details of marked-up changes (both in response to changes to respond to Subcommittee members' comments and staff suggested changes to improve readability or clarifying in nature).

The draft Tier 3 ED includes the remaining sections that the Subcommittee members have reviewed. The new sections that were added to this ED since the draft the Board considered at its March 2024 meeting, including the Subcommittee members' comments to those sections (also presented in Agenda Papers 3.5 – 3.11 in the Supplementary Folder for this meeting containing staff analysis and drafting recommendations) are:

- Section 2: Financial Statement Presentation;
- Section 3: Statement of Financial Position;
- Section 4: Statement of Profit or Loss and Other Comprehensive Income;
- Section 5: Statement of Changes in Equity and Statement of Income and Retained Earnings;
- Section 6: Statement of Cash Flows;
- Section 7: Notes to the Financial Statements;
- Section 9: Accounting Policies, Estimates and Errors;
- Section 16: Intangible Assets;
- Section 17: Entity Combinations;
- Section 24: Employee Benefits; and
- Section 29: Transition to General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities.

The sections above are not reflected as manual mark ups unless staff have made edits based on Subcommittee members' feedback or further refinement of the drafted text.

To facilitate Board members' consideration of this Agenda Paper, staff have:

- presented **14 Questions** to the Board in a text box shaded in grey at the start of each section based on:
 - staff analysis and recommendation to the Board on a sweep issue or other issue; or
 - staff or Subcommittee member's suggestions for further amendments and simplifications that may differ from the DP proposals and the Board's decisions to date where supported by Subcommittee members.
- presented Agenda Paper 3.3 on staff analysis and recommendation of alternative draft of Section 8: Consolidated and Separate Financial Statements, Section 9 and Section 29 including questions 1 – 7 to Board members;
- presented Notes to Board members in a text box shaded in blue and also as comment boxes against relevant paragraphs based on the feedback received from the Subcommittee; and
- except for minor grammatical, renumbering changes or updating paragraphs cross-references, presented edits to the drafting of the Tier 3 ED as strikethrough and underlined text (where necessary, accompanied by a Note to the Board on the amendments) based on either the decisions made by the Board at its March 2024 meeting or staff editorial changes based on review to improve readability. Subject to the Board's feedback at this meeting, when finalising the Tier 3 ED for Subcommittee approval, staff will remove those edits and any other outstanding editorials contained in square brackets, including obtaining the ED number, before the issue of the ED.

AASB Exposure Draft

ED 3XX
Month Year

**General Purpose Financial Statements –
~~Simplified Accounting for Not-for-Profit~~
Private Sector Tier 3 Entities**

Comments to the AASB by [Date Month Year]

Draft



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by [Date Month Year].

Formal Submissions

Submissions should be lodged online via the “Current Projects – Open for Comment” page of the AASB website (www.aasb.gov.au/current-projects/open-for-comment) as a PDF document and, if possible, a Word document (for internal use only).

Online Survey

Although submitting a formal submission is the best way to express views to the AASB relating to a consultation document, preparing a formal submission may require a lot of time and effort from stakeholders. To assist stakeholders in providing timely responses to the AASB on the proposals included in this Exposure Draft, AASB staff have developed an online survey setting out the main areas for which stakeholders’ views are sought. Survey responses will not be attributed to individuals or organisations and will be presented to the AASB in an aggregated form.

To complete the survey, visit this page ([link TBU](#)) on a web browser and follow the on-screen instructions.

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aaab.gov.au

Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Note to Board members

The copyright notice referring to CIPFA, the IFRS Foundation and IFAC, as well as XRB/NZASB, will be finalised and inserted in addition to the below in due course prior to the Exposure Draft being finalised and authorised for issue.

[...]

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Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards.

The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of Australian Accounting Standards. This Exposure Draft proposes a third tier for not-for-profit (NFP) private sector entities.

Exposure Drafts

The publication of an Exposure Draft (ED) is part of the due process the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Why we are making these proposals

These proposals are being made in conjunction with Exposure Draft [ED 3XY] *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* (referred to in this document as the ED on the proposed removal of SPFS) to:

- (a) reduce the reporting burden on smaller NFP private sector entities where the existing Tier 1 and Tier 2 reporting requirements for preparing general purpose financial statements (GPFS) may be overly complex for application;
- (b) remain consistent with other government red tape reduction initiatives to lessen the financial reporting burden for entities; and
- (c) provide Tier 3 financial reporting requirements for those NFP entities that would be prohibited from preparing special purpose financial statements (SPFS) under the AASB's proposals that would appropriately balance the needs of financial statement users and the costs of moving from SPFS to GPFS.

Background

AASB 1053 currently sets out the application of two tiers of GPFS with the same recognition and measurement (R&M) requirements, but different levels of disclosures. In this context:

- (a) for-profit private sector entities with 'public accountability' (such as listed companies) and governments at the Federal, State/Territory and local levels must apply Tier 1 reporting requirements (full R&M requirements and disclosures) that incorporate International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) and include requirements that are specific to Australian entities; and
- (b) other for-profit private sector entities (those without public accountability), NFP private sector entities and public sector entities other than the Australian Government and State, Territory and Local Governments have the option to apply Tier 2 reporting requirements (full R&M requirements with simplified disclosures) instead of Tier 1.

Although there is a need for GPFS to cater for the information needs of a wide range of users, the Board, consistent with the *AASB Not-for-Profit Entity Standard-Setting Framework*, considers that modifications to Australian Accounting Standards for Tier 3 entities can be justified because:

- (a) existing requirements impose cost or require effort by preparers that might not be proportionate to the entity's significance and extent of operation; and/or
- (b) the needs of users of financial statements of smaller NFP private sector entities are not the same as those of users of financial statements of Tier 1 or Tier 2 entities, and information that provides a relevant and faithfully representative depiction of the entity that is easier to understand would benefit the users of financial statements of such smaller entities.

Since the issue of AASB 1053, the Board has continued to monitor developments, progress research and engage with stakeholders concerning various aspects of the reporting framework, either as part of the work of its Research Centre or as part of the Board's Australian Financial Reporting Framework standard-setting project. In 2016, the Board observed that many stakeholders providing feedback on the Board's work program for the period 2017–2019 (in response to Invitation to Comment ITC 34 *AASB Agenda Consultation 2017–2019*) recommended the Board continue its Australian Financial Reporting Framework project as a high-priority project, and the project scope should consider NFP entities and small-to-medium-sized private sector entities. This feedback included suggesting the Board consider the possibility of a third differential reporting tier and reconsidering the criteria for classifying entities as subject to Tier 1 or Tier 2 reporting requirements. Stakeholders also encouraged the Board to continue its work on reviewing the suitability of the reporting entity concept and the prevalence of SPFS.

In developing AASB 1053 *Application of Tiers of Australian Accounting Standards* (which introduced Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements), the Board applied 'user needs' and 'cost/benefit' considerations to identify the extent to which disclosure requirements applicable to Tier 1 entities should be relaxed for Tier 2 entities. 'User needs' and 'cost/benefit' considerations were also implicit in the development of the simplified disclosures in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, which replaced the Reduced Disclosure Requirements. Similarly, such considerations were also applied by the IASB to determine the less onerous R&M requirements of the IASB's *IFRS for SMEs* Standard. Accordingly, the Board similarly decided its proposals on Tier 3 accounting requirements should be developed through considering 'user needs' and 'cost/benefit' overarching principles.

Proposed removal of SPFS for certain NFP entities

Currently, NFP entities may self-assess that they are not a reporting entity as defined in Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*, and therefore elect to prepare SPFS.

The ability of entities to self-assess their reporting requirements under the Australian reporting entity concept has led to the fundamental SPFS problem, that two similar entities might prepare very different sets of financial statements. This has, in certain cases, resulted in some inappropriate reporting outcomes, including limited comparability between NFP private sector entities in similar economic circumstances.

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 elected 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.

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 be a step to improving 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 financial statements that comply with Australian Accounting Standards to prepare GPFS.

However, 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 for requiring NFP private sector entities to prepare financial statements that comply with the requirements specified by Australian Accounting Standards.

Consequently, the Board decided that there is a need to develop a further reporting tier for NFP private sector entities at the same time as it supersedes 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-sized entities with less complex transactions and events that are required to prepare financial statements that comply with Australian Accounting Standards. As the Board's review of the Australian financial reporting framework is being conducted in phases, a project considering the appropriateness of the existing reporting framework for public sector entities is being conducted separately on a different timeline to the timeline for the NFP private sector entities project.

The Board also decided that more NFP entities will be required to prepare GPFS when financial statements are prepared in accordance with a directive that they comply with Australian Accounting Standards. Consequently, the proposals exposed in this ED should be considered in conjunction with the proposals in the ED on the proposed removal of SPFS (ED 3XY). In the main, ED 3XY proposes amendments to the *Conceptual Framework for Financial Reporting*

(Conceptual Framework) and Australian Accounting Standards (including Interpretations) via AASB 1057 *Application of Australian Accounting Standards* so that the pronouncements apply to:

- (a) NFP entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards;
- (b) other NFP entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards; and
- (c) NFP entities that elect to prepare GPFS.

Tier 3 Discussion Paper proposals

In September 2022, the Board issued Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* (DP) 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 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 may be able to prepare Tier 3 GPFS. The matters forming part of the DP were those which:

- (a) were identified as topics of significant interest or concern to stakeholders – for example, the accounting requirements for subsidiaries and recognition of income;
- (b) could have an overarching impact on the development of the Tier 3 reporting requirements – for example, the accounting requirements for changes in accounting policies or correction of errors; and/or
- (c) have otherwise been identified as a common transaction, other event or condition of a smaller NFP private sector entity for which the accounting requirements could be simplified – for example, the requirements for property, plant and equipment and employee benefits.

In considering the proposed Tier 3 reporting requirements, the Board had regard to the accounting requirements applying to smaller NFP private sector entities in several jurisdictions and frameworks, primarily the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs Accounting Standard)*, the *International Non-Profit Accounting Guidance (INPAG)* proposals developed by the Chartered Institute of Public Finance and Accountancy and the *Tier 3 (NFP) Standard Reporting Requirements for Tier 3 Not-for-Profit Entities (NZ Tier 3 (NFP) Standard)*. The selected other jurisdictions were considered on the basis of the international pronouncements compared in the AASB Staff Paper *Comparison of Standards for Smaller Entities* that were reviewed in AASB Research Report 5 *Financial Reporting Requirements Applicable to Charities* (October 2017) in consideration of the different approaches that already exist for particular areas of financial reporting for the purpose of developing the Tier 3 reporting requirements. The selected jurisdictions and relevant pronouncements are:

- United Kingdom – FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* and *Accounting and Reporting by Charities: The Statement of Recommended Practice (Charities SORP)*;
- Hong Kong – *Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard*;
- Canada – *CPA Canada Handbook Part III – Accounting Standards for Not-for-Profit Organizations*;
- Singapore – *Charities Accounting Standard*; and
- United States of America – *Financial Accounting Standards Board Accounting Standards Codification Topic 958 Not-for-Profit Entities*.

In the DP, the AASB proposed:

- (a) Tier 3 reporting requirements with simplified R&M requirements and a disclosure approach that complements the R&M requirements for topics that will be included in the proposed Tier 3 Standard;
- (b) not to establish any reporting thresholds and that any specification of a particular form of GPFS is more appropriately within the remit of a regulatory authority that determines whether financial statements must be prepared by regulated entities in accordance with Australian Accounting Standards; and
- (c) its intention to extend the general application of Australian Accounting Standards to the broader NFP sector, which may result in certain NFP private and public sector entities no longer being able to prepare SPFS.

The Board was also informed by Research Report 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.

Feedback on the proposals in the DP was sought through various outreach activities from October 2022 to March 2023, including virtual outreach sessions, an online survey and submissions. The Board considered the stakeholder comments and assessed the feedback with reference to the principles for developing simplified accounting requirements. The Board decided to proceed with developing a stand-alone accounting standard for a third reporting tier for use by smaller NFP private sector entities subject to the applicable legislative or other reporting requirements in conjunction with the proposals to remove the ability of certain NFP entities to prepare SPFS and thus extend the application of Australian Accounting Standards to the broader NFP sector.

What we are proposing

This Exposure Draft proposes:

- (a) a new Tier 3 Australian Accounting Standard *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* that applies to smaller NFP private sector entities with features including:
 - (i) new Tier 3 R&M requirements that apply to all eligible Tier 3 NFP private sector entities; and
 - (ii) new Tier 3 disclosures that accompany the Tier 3 R&M requirements that apply to all eligible Tier 3 NFP private sector entities; and
- (b) to provide relief from restating and presenting comparative information in the year of transition for entities transitioning to the Tier 3 Australian Accounting Standard.

The consequences of the proposals in this ED would be the minimum requirements proposed for GPFS of NFP private sector entities is a new Tier 3 GPFS framework which requires compliance with simplified R&M requirements in Australian Accounting Standards, and simplified disclosure requirements that complement the simplified accounting requirements. An entity may voluntarily elect, unless otherwise required by legislation or by their constituting document or another document, to prepare:

- (a) Tier 1 GPFS, complying with the full R&M and disclosure requirements in Australian Accounting Standards; or
- (b) Tier 2 GPFS, complying with the full R&M requirements and with the simplified disclosure requirements set out in AASB 1060.

In developing the Tier 3 GPFS framework, the Board determined a set of principles and methodology to ensure the [draft] Tier 3 Standard requirements are appropriate for Tier 3 NFP private sector entities, considering user needs and an appropriate balance between the benefits of financial information to users and the costs to preparers of providing that information as overarching considerations, and the following principles:

- (a) the development of Tier 3 reporting requirements is subject to the *AASB Not-for-Profit Entity Standard-Setting Framework*;
- (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 requirements are 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 comparability of applying Tier 3 requirements across entities; and
- (e) an accounting requirement does not impose disproportionate costs for preparers when compared to the benefits of that information for financial statement users.

In drafting the Tier 3 R&M and disclosure requirements for this ED, the Board considered simplifications based primarily on the NZ Tier 3 (NFP) Standard and applied the following approach:

- (a) for transactions with the same or similar R&M requirements to the Tier 2 NFP private sector entities, the disclosure requirements were developed with reference to the corresponding Tier 2 requirements. The *IFRS for SMEs* Accounting Standard requirements are also used as a starting point, with modifications based on consideration of the INPAG proposals, FRS 102 or other frameworks (eg the Charities SORP) to the extent the requirements were compatible with Tier 2 requirements; and

- (b) for transactions where there is an R&M difference between the Tier 2 and Tier 3 requirements, consideration was given to:
 - (i) adopting, to the extent possible, appropriate requirements in other jurisdictions or frameworks as a starting point; or
 - (ii) in other cases, developing requirements based on the *IFRS for SMEs* Accounting Standard and the INPAG proposals as a starting point.

Application date

The Board proposes setting an application date that provides entities with an implementation period no shorter than three years after the issuance of the Standard. Earlier application is proposed to be permitted for entities preferring to apply the Standard earlier, such as entities moving from Tier 1 or Tier 2 to Tier 3 GPFS.

Who will be affected

The proposals are developed for application by NFP private sector entities that are expected to apply this [draft] Standard (Tier 3 entities) that are:

- (c) required by legislation to prepare financial statements that comply with either Australian Accounting Standards or “accounting standards”; or
- (d) required by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards; or
- (e) elect to prepare GPFS.

These entities may elect to prepare Tier 1 or Tier 2 GPFS instead of Tier 3 GPFS.

Public sector

Although NFP public sector entities are not affected by the proposals in the ED, those NFP public sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or “accounting standards”, or required by another document to prepare financial statements that comply with Australian Accounting Standards, will no longer be able to prepare SPFS based on the proposals in [ED 3XY] to extend the application of the Australian Accounting Standards to the public and private NFP sector.

What happens next

The AASB will consider feedback on this Exposure Draft at future meetings and, based on the information received, will determine whether the proposals should be implemented, with or without amendment. Depending on the nature and extent of the feedback, the AASB may publish another Exposure Draft or a Fatal-Flaw Review Draft to enable further consultation with stakeholders.

We need your feedback

Comments are invited on any of the proposals in this Exposure Draft by [Date Month Year]. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Online survey

Although submitting a formal submission is the best way to express views to the AASB relating to a consultation document, preparing a formal submission may require a lot of time and effort from stakeholders. To assist stakeholders in providing timely responses to the AASB on the proposals included in this Exposure Draft, AASB staff have developed an online survey setting out the main areas for which stakeholders’ views are sought. Survey responses will not be attributed to individuals or organisations and will be presented to the AASB in an aggregated form.

To complete the survey, visit this page ([link TBU](#)) on a web browser and follow the on-screen instructions.

Question 1 to Board members

Staff considered the need to solicit feedback for all the proposed requirements developed in this ED, recognising the aim to effectively engage with the target audience being users and other stakeholders involved with the financial reporting of smaller NFP private sector entities. Therefore, staff have drafted Specific Matters for Comment (SMCs) for each section of the draft Tier 3 ED, to focus specifically on:

- (a) the significant decisions made by the Board in developing the ED, such as significant simplifications when compared to Tier 2 requirements (e.g. providing a parent entity an accounting policy choice to present consolidated or separate financial statements beyond existing exceptions and exemptions in AASB 10);
- (b) where the Board developed a different view in the ED proposals to the preliminary views in the DP (e.g. the list of basic and complex financial instruments);
- (c) the proposals in the ED that were not included in the DP as the Board had not yet developed its preliminary views at that time (e.g. definition of notable relationships); or
- (d) where the Board decided to seek stakeholder feedback on specific matters at previous Board meetings (e.g. whether any transitional relief should be provided for entities early adopting the Tier 3 Standard).

Staff have also drafted the SMCs to use the words 'including' when seeking feedback on a particular Section but specifically focusing on the significant decisions and key matters that the Board made in developing the Tier 3 requirements to balance the number of SMCs. For example, SMC 7 refers to:

Do you agree with the proposed Tier 3 reporting requirement in Section 8: Consolidated and Separate Financial Statements including:

- (a) *as per paragraph 8.2, that an entity applying the Tier 3 reporting requirements that has identified it has subsidiaries shall either:*
 - (i) *present consolidated financial statements in which it consolidates its subsidiaries; or*
 - (ii) *present, as its only financial statements, separate financial statements that...*

While the SMC is drafted to solicit feedback about all the requirements developed for a Section, staff consider stakeholders will likely provide feedback on the specific requirements in the subparagraphs. As such, there is a risk of generalising that feedback from stakeholders agreeing with the requirements developed in that Section may only be agreeing with the specific requirements set out in that question.

Staff consider the above approach would limit the number of questions that would be needed to ensure the SMCs would still provide sufficient feedback on the proposals in this ED.

Staff considered an alternative approach to drafting the SMCs is to develop a single question covering the requirements in sections that stakeholders indicated broad support for the Board's preliminary view in the DP and the proposals in this ED does not differ significantly to the Board's preliminary views. This would enable remaining SMC questions to solicit feedback on specific aspects of proposals rather than whole sections, whilst limiting number of SMC questions posed to respondents. However, staff decided against this approach because such an approach may limit the feedback from stakeholders on the Board's proposal given the general question covers multiple sections collectively and may decrease the likelihood of stakeholders providing feedback for each of the sections.

Do Board members agree with the staff's approach to drafting the SMCs as presented in the section directly below?

If not, what do Board members suggest?

Specific matters for comment

The AASB would particularly value comments on the following:

1. Do you agree with the overarching principles and the methodology on which the [draft] Standard *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* is based, described in paragraph BC8 to this ED? If you disagree, please explain why.

2. Do you agree that the following topics are not common for smaller NFP private sector entities based on evidence that the Board considered as explained in paragraphs BC10–BC11, or their complexity warrants these entities, when applying the proposed Tier 3 reporting requirements, to follow the recording, measurement, presentation and transition requirements of the following Australian Accounting Standards and Interpretations, 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 2 Entities* outlined in paragraph 1.3 of AASB 10XX:
- (a) AASB 2 *Share-based Payment*, in relation to share-based payment arrangements;
 - (b) AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts*, or AASB 17 *Insurance Contracts*, in relation to insurance contracts;
 - (c) AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, in relation to assets held for sale;
 - (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*, in relation to complex financial instruments identified in Section 10 *Financial Instruments* of this Standard;
 - (f) AASB 119 *Employee Benefits*, in relation to obligations arising under a defined benefit plan;
 - (g) AASB 141 *Agriculture*, in relation to biological assets, and agricultural produce at the point of harvest; and
 - (h) AASB Interpretation 12 *Service Concession Arrangements* as identified in AASB 1048 *Interpretation of Standards*, in relation to accounting by an operator in a service concession arrangement?

If you disagree, please explain which Australian Accounting Standards and Interpretation Tier 3 entities should or should not apply and the reason why. Are there any other requirements or Sections in the [draft] Standard that you consider to be uncommon for smaller NFP private sector entities and should not be included in the [draft] Standard? If yes, what are the requirements or Sections, and please explain why.

3. Do you agree that entities applying the proposed Tier 3 reporting requirements should prepare financial statements outlined in paragraph 2.19 of AASB 10XX that include all of the following:
- (a) a statement of financial position as at the reporting date;
 - (b) either:
 - (i) a single statement of profit or loss and other comprehensive income for the reporting period displaying all items of income and expense recorded during the period, including those items recorded in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income; or
 - (ii) a separate statement of profit or loss and a separate statement of comprehensive income. If an entity chooses to present both a statement of profit or loss and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays 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 policies information and other explanatory information?

If you disagree, please explain what should financial statements of Tier 3 entities should or should not include and the reason why?

4. Do you agree that 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 of comprehensive income and statement of changes in equity outlined in paragraph 2.20? If you disagree, please explain why.
5. Do you agree with the proposed information to be presented in:
- (a) the statement of financial position as outlined in paragraph 3.2 and either in the statement of financial position or in the notes for items outlined in paragraph 3.8 when those amounts are material to an understanding of the entity's financial position;
 - (b) the statement of profit or loss and comprehensive income as outlined in paragraph 4.4 when those amounts are material to an understanding of the entity's financial performance, including separately disclosing the items outlined in paragraph 4.5;

- (c) the statement of changes in equity as outlined in paragraph 5.3;
- (d) the statement of income and retained earnings as outlined in paragraph 5.5 in addition to the other information required in Section 5: *Statement of Profit or Loss and Other Comprehensive Income*; and
- (e) the notes to the financial statements as outlined in Section 7: *Notes to the Financial Statements*?

If you disagree, please explain which information should or should not be presented in the respective financial statements or in the notes, with reasons.

6. Do you agree that Tier 3 entities should present a statement of cash flows that presents cash flows for a reporting period classified by operating activities, and other activities which encompass investing activities and financing activities as outlined in paragraph 6.3? Do you agree that Tier 3 entities may present cash flows from operating activities using either the direct or indirect method as outlined in paragraph 6.7? If you disagree, please explain why.

7. Do you agree with the proposed Tier 3 reporting requirements in Section 8: *Consolidated and Separate Financial Statements* including:

- (a) as per paragraph 8.2, an entity applying the Tier 3 reporting requirements that has identified it has subsidiaries shall either:
 - (i) present consolidated financial statements in which it consolidates its subsidiaries; or
 - (ii) present, as its only financial statements, separate financial statements that:
 - (A) do not consolidate its subsidiaries; and
 - (B) disclose the information about its notable relationships;
- (b) a notable relationship entity exists when the reporting entity has at least significant influence over the entity (with or without holding an investment in the other entity's equity instruments, if any exist) as outlined in paragraph 8.28; and
- (c) a parent entity that does not prepare consolidated financial statements or an entity with notable relationships is required to disclose the items in paragraph 8.31 for each notable relationship entity?

If you disagree, please explain why.

8. Do you agree that a reporting entity with one or more notable relationships preparing separate financial statements should apply an accounting policy election in 8.34 to measure its investments in notable relationship entities at any of:

- (a) cost;
- (b) 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; or
- (c) its equity method-based amount?

If you disagree, please explain why.

9. Do you agree with the proposed Tier 3 reporting requirements in Section 9: *Accounting policies, estimates and errors* including:

- (a) that an entity shall account for changes in accounting policies other than transitional provisions using a modified retrospective approach without restating information presented for comparative periods as outlined in paragraphs 9.10 – 9.11;
- (b) that the effect of a change in accounting estimates shall be applied prospectively from the date of the change in estimates as outlined in paragraph 9.18; and
- (c) that an entity shall correct a material prior period error using a modified retrospective approach without restating information presented for comparative periods as outlined in paragraph 9.23 and to disclose a description of the error and how it was corrected and the amount of correction to the opening balances of assets, liabilities and items of equity for the current period as per paragraph 9.24?

If you disagree, please explain why.

10. Do you agree the proposed Tier 3 reporting requirements for financial instruments shall apply to the following financial assets and liabilities arising from financial instruments identified as commonly held by Tier 3 NFP private sector entities or basic financial instruments in Section 10: *Financial Instruments* paragraph 10.2, including:

- (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) non-convertible ordinary and preference shares held in listed and non-listed entities, including 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 (whether bearing interest at fixed or variable rates, interest-free or including terms that create leverage). Loans may be amounts borrowed or lent?

If you disagree, which financial instruments should or should not be subject to the proposed Tier 3 reporting requirements for basic financial instruments or financial instruments commonly held by Tier 3 NFP entities included and why?

11. Do you agree an entity applying the proposed Tier 3 reporting requirements should apply AASB 9 *Financial Instruments* to account for the following complex or less commonly financial instruments held by Tier 3 NFP private sector entities identified in paragraph 10.3:

- (a) unlisted purchased debt instruments such as unlisted corporate bonds and convertible notes;
- (b) acquired equity instruments other than non-convertible ordinary and preference shares;
- (c) financial guarantee contracts;
- (d) derivatives such as interest rate swaps and forward exchange contracts; and
- (e) commitments to provide a loan at a below-market interest rate?

If you disagree, which financial instruments held by Tier 3 NFP private sector entities should or should not be accounted for in accordance with AASB 9 and why?

12. Do you agree with the Tier 3 reporting requirements developed for financial assets and financial liabilities that are basic or commonly held by Tier 3 entities as outlined in paragraph 10.3, including:

- (a) as per paragraphs 10.5–10.5A, an entity should record financial assets and financial liabilities identified as initially at its fair value (excluding transaction costs and fees incurred by the entity) and a concessional loan is recorded initially at its transaction price (ie the amount of cash lent) as per paragraph 10.5–10.5A;
- (b) as per paragraph 10.6, financial assets acquired or originated by the entity to generate both income and a capital return for it (including all investments in equity instruments) shall be measured at fair value as at the end of each reporting period, except when a reliable measure of the fair value of an investment in an unlisted equity instrument is unavailable? Changes in the fair value of such financial assets shall be presented in profit or loss, unless the entity elects irrevocably, on initial recording of the first asset in a class of financial assets, to present changes in the fair value of that class in other comprehensive income;
- (c) as per paragraph 10.7, except for transitional provisions, an entity applying the Tier 3 reporting requirements should not be permitted to apply hedge accounting, regardless of whether the financial instruments in the hedging relationship are accounted for in accordance with the requirements of this [draft] Standard or AASB 9;
- (d) as per paragraph 10.16, an entity shall assess whether there is objective evidence of impairment of any financial assets or group of financial assets for debtors within the scope of Section 20 *Revenue* and any financial assets measured at cost as outlined in?

If you disagree, please explain why.

13. Do you agree with the proposed Tier 3 reporting requirements in Section 11: *Fair Value Measurement* including the definition of fair value to remain consistent with Tier 2 reporting requirements as explained in paragraphs BC73–BC76? If you disagree, please explain why.

14. Do you agree with the proposed Tier 3 reporting requirements in Section 12: *Inventories* including:

- (a) that entity may elect to initially measure the cost of donated inventory either at its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount) or at a reliable measure of its current replacement cost as at the date of donation as per paragraph 12.8; and

- (b) where an entity has elected to initially measure at cost donated item(s) of inventory, it shall make the same disclosures about donated item(s) as those required by paragraphs 15.29 and 15.30 of Section 15: *Property, Plant and Equipment* for donated items of property, plant and equipment that the entity elected to initially measure at cost?

If you disagree, please explain why.

15. Do you agree the guidance on the techniques and formulae for measuring the cost of particular items of inventory in paragraphs 12.14 and 12.15 is useful and proportionate for entities expected to apply the Tier 3 reporting requirements? If you disagree, please explain why.
16. Do you agree with the proposed Tier 3 reporting requirements in Section 13: *Investments in Associates and Joint Arrangements* including that an investor shall account for its investments in associates and joint ventures in financial statements that are not consolidated financial statements using one of the methods outlined in paragraph 13.13:
- (a) the cost model;
 - (b) the equity method; or
 - (c) the fair value model?

If you disagree, please explain why.

17. Do you agree with the proposed Tier 3 reporting requirements in Section 14: *Investment Properties* and Section 15: *Property, Plant and Equipment* to align the reporting requirements with Tier 2 reporting requirements except for language and further reduced disclosures, and allowing Tier 3 NFP entity to elect to measure donated non-financial assets and as per paragraph 14.6 and paragraph 15.4 respectively, either:
- (a) at its cost with the same disclosure requirements about donated property as those in paragraphs 15.29 and 15.30 of Section 15 for donated items of property, plant and equipment; or
 - (b) at its fair value as at the date of donation?

If you disagree, please explain why.

18. In relation to the proposed measurement election choice in Q17, the AASB is seeking information on the cost of obtaining the fair value of donated non-financial assets by the NFP private sector entities expected to apply Tier 3 requirements. If possible, please provide an estimated cost of obtaining the fair value of donated non-financial assets. Are there any types of non-financial assets that are more costly to obtain the fair value for?
19. Do you agree with the proposed Tier 3 reporting requirements in Section 16: *Intangible Assets*, including:
- (a) that an entity records an intangible asset when it is purchased by, or donated to the entity and measured initially at cost as per paragraphs 16.3 and 16.4;
 - (b) all expenditures for both research and development activities incurred internally on an intangible item shall be recorded as expenses when incurred as outlined in paragraph 16.7;
 - (c) an entity shall choose either the cost model in paragraph 16.14 or the revaluation model in paragraphs 16.15 and 16.16 as its accounting policy for subsequent measurement of intangible assets; and
 - (d) all intangible assets shall be accounted for as if they have a finite useful life but if the useful life of an intangible asset is indefinite, the useful life shall be determined based on management's best estimate but shall not exceed ten years as outlined in paragraph 16.17?

If you disagree, please explain why.

20. Do you agree with the proposed Tier 3 reporting requirements in Section 17: *Business Combination*, including:
- (a) that entity combinations in the scope of Section 17 include combinations of separate entities or operating units into one reporting entity where operating units are defined in paragraph 17.4;
 - (b) as of the deemed combination date, the combined existing carrying amounts of the assets, liabilities and items of equity of the entities subject to the combination become the carrying amounts of the assets, liabilities and items of equity of the reporting entity. The deemed combination date is the beginning of the reporting period during which the entity combination occurred. However, a reporting entity may elect to restate comparative information for one or more prior periods as if the entity combination occurred in a prior period, in which case the deemed combination date is the beginning of the first prior period for which restated comparative information is presented as outlined in paragraph 17.5;
 - (c) if a material asset or liability of an entity subject to the combination does not have an existing carrying amount recorded in accordance with Australian Accounting Standards, it shall initially be measured at its fair value as at the deemed combination date as outlined in paragraph 17.6;

- (d) any difference between the carrying amount of the consideration paid by an acquirer of the other combining entities and the carrying amount of the net assets recorded in the combination is recorded directly in equity. An entity combination does not give rise to the recording of goodwill as outlined in paragraph 17.7; and
- (e) the disclosures requirements relating to the entity combination in paragraphs 17.11 and 17.12?

If you disagree, please explain why. In relation to the proposed entity combinations in the scope of Q20(a), the AASB is also seeking information on the frequency in which entity combinations involving operating units that are not entities occur for smaller NFP private sector entities.

21. Do you agree with the proposed Tier 3 reporting requirements in Section 18: *Leases*, including:
- (a) for a lessee to record lease payments (excluding costs for services such as insurance and maintenance) as an expense, and for the lessor to record lease income in profit or loss, over the lease term on a straight-line basis, unless another systemic basis is more representative of the time pattern of the user's benefit from the leased asset as outlined in paragraphs 18.3 and 18.5; and
 - (b) the proposed disclosures for both lessee or lessor in paragraphs 18.8–18.13?

If you disagree, please explain why.

22. Do you agree with the proposed Tier 3 reporting requirements in Section 19: *Provisions and Contingencies* including aligning with Tier 2 requirements as explained in paragraph BC16 except for simplified disclosures for provisions, contingent assets, contingent liabilities and guarantees and firm commitments? If not, please explain why.

23. Do you agree with the proposed Tier 3 reporting requirements in Section 20: *Revenue* including the requirement in paragraph 20.3 on initial recording of an asset provided to the entity:

- (a) the entity shall record a deferred revenue obligation (liability) if the entity and the provider of the asset have a common understanding that, in response, the entity will perform in a particular manner resulting in the expenditure, transfer or using up of that asset or other assets of the entity with a similar value; or
- (b) if a deferred revenue obligation liability does not exist, revenue is recorded simultaneously with initially recording the asset at the earlier of receiving the cash or other asset and obtaining control of a right to receive the cash or other asset?

If you disagree, please explain why.

24. Do you agree that the proposed Tier 3 reporting requirements should, on the grounds that these transactions are likely to be uncommon and inclusion of such requirement is unlikely to be proportionate for Tier 3 entities, exclude the following:

- (a) any reference to variable consideration from the initial measurement requirements for accounts receivable in Section 20; and
- (b) the requirements addressing how to account for a significant financing period provided to a customer, when measuring the amounts of accounts receivable arising from a transfer of goods or service to a customer or beneficiary in paragraph 20.3?

If you disagree, please explain why.

25. Do you agree with the proposed Tier 3 reporting requirements in Section 21: *Expenses* to record expenses upon the recording of a decrease in assets, or an increase in liabilities and only amounts paid and payable by the entity with resources it controls as per paragraphs 21.1 and 21.2? If you disagree, please explain why.

26. Do you agree with the proposed Tier 3 reporting requirements in Section 22: *Borrowing Costs* to require an entity to record all borrowing costs as an expense in profit or loss in the period in which they accrue as outlined in paragraph 22.1? If you disagree, please explain why.

27. Do you agree with the proposed Tier 3 reporting requirements in Section 23: *Impairment of Assets*:

- (a) to apply to all assets other than financial assets within the scope of Section 11: *Financial Instruments* and non-financial assets regularly revalued to fair value as per paragraph 23.2; and
- (b) to require an entity to assess the possibility that any non-financial assets are impaired as outlined in paragraph 23.3, when, and only when:
 - (i) they have been damaged physically or are perishable items that spoiled or become obsolete; or
 - (ii) 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 sell or provide goods or services might have been affected adversely as a result?

If you disagree, please explain why.

28. Do you agree with the proposed Tier 3 reporting requirements in Section 24: *Employee benefits* including requiring an entity to record:
- (a) a provision for non-vesting leave only if, and to the extent that, the leave has been taken by an employee and has not been paid by the entity (ie is due and payable) at the end of the reporting period as per paragraph 24.4; and
 - (b) a provision for employee entitlements to future leave or payments in lieu of leave accumulated as at the end of the reporting period as a result of employee services received until that date. Provision for employee benefits payable to its employees, and related employee benefit expenses, shall be measured at the undiscounted amount of employee benefits expected to be paid as per paragraph 24.7?

If you disagree, please explain why.

29. Do you agree with the proposed Tier 3 reporting requirements in Section 25: *Income taxes* to require an entity to record income tax expenses for the period for the income tax payable for the period? Liability for income tax at the end of the reporting period shall be measured as the sum of the estimated income tax payable for the period and any income tax assessed in respect of a prior period (or periods) and unpaid at the end of the reporting period as per paragraph 25.1. If you disagree, please explain why.
30. Do you agree with the proposed Tier 3 reporting requirements in Section 26: *Foreign currency translation* to require an entity that has transactions or balances that are not denominated in Australian dollars, to translate amounts to Australian dollars using the exchange rate on the date the transaction for revenue, expense or cash flow occurs and monetary asset and liability balances translated using the exchange rate at balance date as per paragraph 26.1? If you disagree, please explain why.
31. Do you agree with the proposed Tier 3 reporting requirements in Section 27: *Events occurring after the reporting period* including aligning with Tier 2 reporting requirements? If you disagree, please explain why.
32. Do you agree with the proposed Tier 3 reporting requirements in Section 28: *Related party disclosures* including aligning with Tier 2 reporting requirements except for not requiring disclosure of:
- (a) key management personnel compensation; 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 as per paragraph 28.12?

If you disagree, please explain why.

33. Do you agree that the proposed effective date of annual reporting periods would be at least three years after the issue of this [draft] Standard as explained in paragraphs BC132 and BC133, with earlier application permitted? If you disagree, please explain why.
34. Do you agree with the transitional requirements proposed in Section 29: *Transition to General Purpose Financial Statements: Not-For-Profit Private Sector Tier 3 Entities*, including:
- (a) allowing first-time adopters of the [draft] Standard transitioning from application of Tier 1 or Tier 2 requirements of Australian Accounting Standards an election to continue applying all related Tier 1 or Tier 2 recording, measurement and disclosure requirements to some or all assets or liabilities existing on the transition date or apply the Tier 3 requirements directly on a modified retrospective basis, as per paragraph 29.4;
 - (b) optional relief not to disclose comparative information for the previous comparable period if it did not disclose comparative information in its most recent previous financial statements, as per paragraph 29.15(a); and
 - (c) optional relief not to distinguish corrections of prior period errors from changes in accounting policies when disclosing adjustments to the carrying amounts of assets, liabilities or items of equity on initial adoption, as per paragraph 29.15(b)?

The Board decided no additional transitional relief would be available for entities adopting the [draft] Standard early.

Do you agree with the proposed transitional requirements in Section 29, as explained in paragraphs BC127 and BC128, and that no additional transitional relief should be available for entities adopting the [draft] Standard early? If you disagree, please explain why, including what additional transition relief should be given to entities adopting the [draft] Standard early and your reasons.

35. Do you agree with the proposed amendments in AASB 1053 *Application of Tiers of Australian Accounting Standards* to require that an entity transitioning from preparing GPFS in accordance with Tier 3 reporting requirements to preparing:

- (a) GPFS in accordance with Tier 1 for the first time shall apply all the relevant requirements of AASB 1 *First-time Adoption of Australian Accounting Standards*; and
- (b) GPFS in accordance with Tier 2 for the first time shall either apply AASB 1 or Tier 2 reporting requirements directly using the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. These entities applying Tier 2 reporting requirements for the first time may elect not to:
 - (i) restate comparative information presented for prior periods as if the Tier 2 reporting requirements had been applied from the beginning of the earliest prior period presented;
 - (ii) provide comparative information for new disclosures made in accordance with the Tier 2 reporting requirements; or
 - (iii) distinguish corrections of errors made in periods prior to first-time adoption of the Tier 2 reporting requirements from changes in accounting policies?

If you disagree, please explain your reasons.

- 36. Do you agree with the structure of the [draft] Standard including the use of simplified language to express the Tier 3 requirements? If you disagree, please explain your reasons.
- 37. Did you identify any unintended consequences might arise from the proposals? If yes, please explain what they are and how they can be mitigated.
- 38. Do you have any other comments on the proposals?

General matters for comment

The AASB would also particularly value comments on the following general matters:

- 39. Has the *AASB Not-for-Profit Entity Standard-Setting Framework* been applied appropriately in developing the proposals in this Exposure Draft?
- 40. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?
- 41. Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?
- 42. Would the proposals result overall in financial statements that are useful to users?
- 43. Are the proposals in the best interests of the Australian economy?
- 44. Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

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[DRAFT] ACCOUNTING STANDARD

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[Draft] Australian Accounting Standard AASB 10XX *General Purpose Financial Statements – Simplified Accounting For Not-for-Profit Private Sector Tier 3 Entities* is set out in paragraphs 1.1–29.19 and Appendices A–C. All the paragraphs have equal authority. AASB 10XX is to be read in the context of other Australian Accounting Standards as set out in paragraph 1.3. In the absence of explicit guidance, Section 9 *Accounting Policies, Estimates and Errors* provides a basis for selecting and applying accounting policies.

Draft

Preface

Introduction

This 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 [draft] Standard

Main requirements

This Standard sets out new, separate recognition, measurement, presentation and disclosure requirements for a new tier, Tier 3, which is applicable to certain not-for-profit private sector entities. This Standard has been developed through applying a new methodology and principles based on considering preparer costs and user needs to determine the modified recognition, measurement, presentation and disclosure requirements that are appropriate for smaller not-for-profit private sector entities that are not publicly accountable and are not prohibited from applying this Standard by the relevant legislation, constituting document or other document (Tier 3 entities). The methodology and principles applied are outlined in the Basis for Conclusions.

This Standard does not specify which entities are permitted to apply Tier 3 reporting requirements. That is a matter for other regulatory authorities to determine. The recognition, measurement, presentation and disclosure requirements that are relevant to Tier 3 entities are set out in this separate Standard.

Application date

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

[Draft] Accounting Standard AASB 10XX

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

Dated ... [date]

Keith Kendall
Chair – AASB

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

Question 2 to Board members

Staff presented Section 1 in Agenda Paper 4.3 at the March 2024 Board meeting which reflects the Board’s decision to scope out the topics in paragraph 1.3 below. On further reflection of the references to complex financial instruments to applying AASB 9 in paragraph 1.3(e) staff recommend also including reference to “other Australian Accounting Standards as applicable” as for example, AASB 132 *Financial Instruments: Presentation* and other standards may apply when considering complex financial instruments identified in Section 10 of this draft Tier 3 ED. If the Board agrees with the staff recommendation, the drafting of 1.3(e) would be revised to:

“AASB 9 *Financial Instruments* and other applicable Australian Accounting Standards to complex financial instruments identified in Section: 10 *Financial Instruments* of this Standard”.

Staff will also make the relevant changes in Section 10 for complex financial instruments identified in paragraph 10.3.

Do Board members agree with the staff recommendation to include references to other applicable Australian Accounting Standards in the paragraph 1.3(e)?

If not, what do Board members suggest?

Section 1: Objective, Scope and Application

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 not-for-profit private sector 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.

~~Intended~~ Scope of this Standard

- 1.2 Not-for-profit private sector entities without public accountability and qualifying as Tier 3 entities under the applicable legislative or other reporting requirements shall, as a minimum, apply Tier 3 Australian Accounting Standards – Simplified Accounting under AASB 1053 *Application of Tiers of Australian Accounting Standards*. These types of entities may elect to apply Tier 1 or Tier 2 reporting requirements in their entirety, instead of Tier 3 reporting requirements, in preparing general purpose financial statements.

Application of this Standard

- 1.3 A not-for-profit private sector entity that is eligible for, and is required to or elects to apply, the Tier 3 reporting requirements in preparing general purpose financial statements shall apply this Standard and the ~~recognition~~ recording, measurement, and presentation and transition requirements of the following Australian Accounting Standards and Interpretation, 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 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts*, or AASB 17 *Insurance Contracts*, in relation to insurance contracts;
- (c) AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, in relation to assets held for sale;
- (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*, in relation to complex financial instruments identified in Section: 10 *Financial Instruments* of this Standard;
- (f) AASB 119 *Employee Benefits*, in relation to obligations arising under a defined benefit plan;
- (g) AASB 141 *Agriculture*, in relation to biological assets, and agricultural produce at the point of harvest; and
- (h) AASB Interpretation 12 *Service Concession Arrangements* as identified in AASB 1048 *Interpretation of Standards*, in relation to accounting by an operator in a service concession arrangement.

Commencement of the legislative instrument

1.4 For legal purposes, this legislative instrument commences on ...[date].

Note to Board members

In Agenda Paper 3.8 for this meeting, staff asked Subcommittee members whether they agreed with:

- (a) The approach to terminology adopted in the drafting of Primary Financial Statements of Tier 3 NFP entities. The expression of the draft sections for Primary Financial Statements is based on AASB 1060 which is based closely on IFRS. The main (limited) departures from the use of the expressions are:
 - (i) Permitting the use of ‘statement of surplus or deficit’ instead of ‘statement of profit or loss’ (see draft paragraph 2.24); and
 - (ii) Addition of a small number of examples of transactions particular to Tier 3 NFP entities, such as grants and donations, aligning with some text in the INPAG ED and/or New Zealand Tier 3 Standards (e.g. draft paragraph 2.26(b)).

Staff have limited the use of different titles and labels from those in AASB 1060 as per the Board’s preliminary view in paragraphs 5.21 – 5.22 of the DP to ensure consistency with AASB 1060 supported by educational materials to explain the flexibility permitted in the presentation of financial information.

Feedback from Subcommittee: The Subcommittee members who commented agreed with the staff’s approach.

- (b) Omitting the Tier 2 exceptions to the acquired current/non-current classification requirements for assets and liabilities (to use a liquidity-based presentation). Staff suggest this omission for further simplification (consequently, all Tier 3 NFP entities would be required to classify their assets and liabilities into their current and non-current portions) and to avoid imposing the cost and effort of having to determine whether a liquidity-based presentation of assets and liabilities would be more relevant.:

Feedback from Subcommittee: The Subcommittee members who commented agreed with the staff suggestion.

- (c) Classifying assets and liabilities into their current and non-current portions, the Tier 2 requirement to consider the entity’s normal operating cycle should be omitted. Staff suggest that the main criterion for current/non-current classification is whether an asset will be converted to cash or consumed within 12 months after the reporting date, or a liability is due to be settled within the same period. The primary reason for this suggestion is to simplify the presentation requirements to achieve a better balance of costs and benefits.

Feedback from Subcommittee: The Subcommittee members who commented agreed with the suggested omission.

Section 2: Financial Statement Presentation

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*. 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 not-for-profit entities. The additional disclosures referred to above are necessary when compliance with the specific requirements in this Standard is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the entity's financial position and financial performance.

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 recording, measurement, presentation or disclosure requirement in this Standard would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework for Financial Reporting*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing the following:
- (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 for Financial Reporting*; 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, the 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 Where 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. The statement of accounting policies in the notes shall disclose whether the financial statements were prepared on a going concern basis. When the entity does not prepare financial statements on a going concern basis, it shall also disclose:

- (a) a statement that the entity intends to cease operating or that it is unlikely the entity will be able to continue operating, together with the reason(s) why; and
- (b) the basis on which the financial statements were prepared.

2.8 The effect of the change in the 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 Accounting Policies, Estimates and Errors*; or
- (b) this Standard requires a change in presentation.

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 in respect of 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. The 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 the entity's transactions and balances. Therefore, the entity shall report gross amounts for transactions and balances, and not offset (net off) separate transactions or balances. This means that:
- (a) assets and liabilities shall not be offset against each other; and
 - (b) revenue and expenses shall not be offset against each other
- unless required or permitted to do so by this Standard.
- 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 do so in settlement of those amounts;
 - (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 of an entity shall include all the following:
- (a) a statement of financial position as at the reporting date;
 - (b) either:
 - (i) a single statement of profit or loss and other comprehensive income for the reporting period displaying all items of income and expense recorded during the period, including those items recorded in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income; or
 - (ii) a separate statement of profit or loss and a separate statement of comprehensive income. If an entity chooses to present both a statement of profit or loss and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays 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 of comprehensive income 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 of comprehensive income 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 are consolidated financial statements, separate financial statements in which subsidiaries are not consolidated but disclosure is made about notable relationships, or financial statements for a single entity (see paragraphs 8.2 and 8.3);
 - (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 that is 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 As a minimum, 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;
 - (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;
 - (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.

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 either 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 individual classes and subclasses are material, according to the nature and use of those assets, classified in a manner appropriate to the entity's operations. This includes, for example:

- (a) ~~property, plant and equipment, sub-classified, when individual classes are material, according to the nature and use of those assets;~~
- (b) trade and other receivables;
- (c) inventories, showing separately amounts of inventories:
 - (i) held for sale in the ordinary course of operations;
 - (ii) in the process of production for such sale; and
 - (iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services;
- (d) trade and other payables;
- (e) deferred revenue obligations;
- (f) provisions for employee benefits and other provisions; and
- (g) classes of equity, 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 If, at the reporting date, an entity has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the entity shall disclose the following information:
- (a) a description of the asset(s) or the group of assets and liabilities; and
 - (b) a description of the circumstances of the sale.
- 3.11 In applying paragraph 3.6, if an entity classifies liabilities arising from loan arrangements as non-current when 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, and their amount.

Section 4: Statement of Profit or Loss and Other Comprehensive Income and Income Statement

Scope of this section

- 4.1 This section requires an entity to present its total comprehensive income for a period—ie its financial performance for the period—in 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 of comprehensive income 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.

Single-statement approach

- 4.3 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. This Standard provides different treatment for the following circumstances:
- (a) the effects of corrections of prior period errors and changes in accounting policies are presented as modified retrospective adjustments (ie of the opening balances of assets, liabilities and equity for the current period) instead of as part of profit or loss for the current period (see Section 9); and
 - (b) items of other comprehensive income are recorded as part of total comprehensive income, outside profit or loss, when they arise.
- 4.4 As a minimum, an entity shall include, in the statement(s) presenting 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 (see Section 13 *Investments in Associates and Joint Arrangements*);
 - (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 (see paragraph 4.3(b)) classified by nature (excluding amounts in (h)). Such items shall be grouped into those that, in accordance with this Standard:
 - (i) will not be reclassified subsequently to profit or loss; and
 - (ii) will be reclassified subsequently to profit or loss when specific conditions are met;

- (g) share of the other comprehensive income of associates and joint ventures 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).
- 4.5 An entity shall disclose separately the following items in the statement(s) presenting 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

- 4.6 Under the two-statement approach, the statement of profit or loss shall display, as a minimum, line items that present the amounts in paragraph 4.4(a)–4.4(h) 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 4.4(g) and 4.4(h) and paragraph 4.5 for the period.

Requirements applicable to both approaches

- 4.7 Under this Standard, the effects of corrections of prior period errors and changes in accounting policies are presented as modified retrospective adjustments (ie of the opening balances of assets, liabilities and equity for the current period) instead of as part of profit or loss for the current period (see Section 9).
- 4.8 An entity shall present additional line items, headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income (and in the statement of profit or loss, if presented), when such presentation is relevant to an understanding of the entity's financial performance.
- 4.9 An entity shall not present or describe any items of income and expense as 'extraordinary items' in the statement(s) presenting profit or loss and other comprehensive income (or in the statement of profit or loss, if presented) or in the notes.

Analysis of expenses

- 4.10 An entity shall present in the statement of profit or loss and other comprehensive income or in the notes an analysis of expenses using a classification based on either the nature of expenses or the function of expenses within the entity, whichever provides information that is reliable and more relevant.

Analysis by nature of expense

- (a) Under this method of classification, expenses are aggregated in the statement(s) of profit or loss and other comprehensive income according to their nature (for example, depreciation, purchases of materials, grants and donations made, transport costs, employee benefits, information technology support and advertising costs) and are not reallocated among various functions within the entity.

Analysis 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.

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 period, either in a statement of changes in equity or, if the conditions specified in paragraph 5.4 are met and an entity chooses, in a statement of income and retained earnings.

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 recorded in opening balances for the period and the amounts of investments by, and distributions to, owners 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 includes 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 modified retrospective application or modified retrospective restatement on opening balances recorded in accordance with *Section 9 Accounting Policies, Estimates and Errors*; 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 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 2.21 permits an entity to present a statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity if the only changes to its equity during the periods for which financial statements are presented arise from profit or loss, corrections of prior period errors, and changes in accounting policy.

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

- 5.5 An entity shall present, in the statement of income and retained earnings, the following items in addition to the information required by Section 5 *Statement of Profit or Loss and Other Comprehensive Income*:
- (a) retained earnings at the beginning of the reporting period;
 - ~~(b) dividends declared and paid or payable during the period;~~
 - (b) restatements of opening retained earnings for corrections of prior period errors;
 - (c) restatements of opening retained earnings for changes in accounting policy; and
 - (d) retained earnings at the reporting date.

Section 6: Statement of Cash Flows

Scope of this section

- 6.1 This section sets out the information that is 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 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 cash flows for a reporting period classified by operating activities, and other activities, which encompass investing activities and financing activities. An entity may elect to present cash flows from investing activities and financing activities either separately or together.

Operating activities

- 6.4 Operating activities are the principal activities of the entity. 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 the use of which is restricted to 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) interest and other receipts from investments and loans; and interest paid.

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 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 long-term assets such as property, plant and equipment (including self-constructed 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 (whether for short-term or long-term loans).

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:
- (a) changes during the period in inventories and operating receivables and payables;
 - (b) non-cash items such as depreciation, provisions, ~~deferred tax~~, 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 effects relate to investing or financing.

- 6.9 Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of comprehensive income and the changes during the period in inventories and operating receivables and payables.

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 of comprehensive income (or the statement of profit or loss, if presented) for:
 - (i) changes during the period in inventories and operating receivables and payables;
 - (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 (investing and financing) activities

- 6.11 An entity may elect to present separately or together major classes of gross cash receipts and gross cash payments arising from other (investing and financing) activities. If an entity elects to separately present cash flows from investing and financing activities, ~~the~~ aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units relate to investing activities.

Reporting cash flows on a net basis

- 6.12 Cash flows arising from operating, investing or financing 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 cash flows consistently from period to period as relating to operating or other activities.
- 6.14 An entity may classify interest paid and interest and dividends received as operating cash flows because they are included in profit or loss. Alternatively, the entity may classify interest paid and interest and dividends received as 'other' cash flows 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 other activities. 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 acquisition of assets by assuming directly related liabilities; and
 - (b) 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 principles underlying information that is 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 is presented: the statement of profit or loss and other comprehensive income, the statement of profit or loss and the statement of comprehensive income, the combined 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 disaggregations 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 specific accounting policies used, in accordance with paragraphs 7.7–7.9; 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 together 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(s) of profit or loss and other comprehensive income and the statement of financial position, such as:
 - (i) statement of compliance with this Standard (see paragraph 2.3);

- (ii) material accounting policy information (see paragraph 7.7); and
- (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 paragraphs 19.12 and 19.13), contingent assets (see paragraph 19.15) and unrecorded contractual commitments; and
 - (2) non-financial disclosures, if any.

7.6 An entity may present notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.

Disclosure of accounting policy information

7.7 An entity shall disclose material accounting policy information (see Glossary). 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

7.8 An entity shall disclose, in the material accounting policy information or other notes, the judgements, apart from those involving estimations (see paragraph 7.9), 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. In respect of those assets and liabilities, the notes shall include details of:

Information about key sources of estimation uncertainty

7.9 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

7.10 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.

7.11 For paragraph 7.10, an entity shall disclose the nature of other services.

Note to Board members

The Board provided feedback at its March 2024 Board meeting to improve the linkage between disclosures required for notable relationships and related party disclosures. In addition to the amendments in the drafting marked-up below, in light of the feedback, staff have also reassessed the drafting of Section 8 more holistically and now present an alternative approach to the drafting of notable relationships, consolidated and separate financial statements in Agenda Paper 3.3 for this meeting including **Question 1 for Board members** in that paper to consider. The marked-up amendments in the draft text below should be assumed to be carried across to the alternative draft text for Section 8 in Agenda Paper 3.3.

Section 8: Consolidated and Separate Financial Statements

Scope of this section

- 8.1 This section defines the circumstances in which an entity applying this Standard presents consolidated financial statements and the procedures for preparing those statements in accordance with this Standard. It also includes:
- (a) disclosure requirements about the entities over which the reporting entity has at least significant influence, referred to as notable relationships, in separate financial statements; and
 - (b) guidance on how to prepare separate financial statements in accordance with this Standard, if they are prepared.

Presentation of consolidated financial statements

- 8.2 A reporting entity that, in applying paragraphs 8.4–8.14, identifies it has subsidiaries shall either:
- (a) present consolidated financial statements in which it consolidates its subsidiaries, by including the parent, and all its subsidiaries. Consolidated financial statements, prepared in accordance with paragraphs 8.15–8.26, shall not consolidate any entity that is not a subsidiary ~~no other entities, in accordance with paragraphs 8.15–8.26~~; or
 - (b) present, as its only financial statements, separate financial statements that:
 - (i) do not consolidate its subsidiaries;
 - (ii) are prepared in accordance with paragraphs 8.34 and ~~8.35~~; and
 - (iii) disclose the information about its notable relationships specified in paragraph ~~8.32~~8.31. ‘Notable relationships’ are defined in paragraph 8.28.
- 8.3 ~~If a~~ reporting entity ~~prepares that elects to present~~ consolidated financial statements in accordance with paragraph ~~8.2(a)~~, it may also ~~elect to prepare~~ present separate financial statements in accordance with paragraphs ~~8.2(b)~~8.34 and 8.35. Those separate financial statements are not required to include the disclosures about notable relationships ~~under specified in paragraph 8.2(b)(iii)~~ are not required 8.31.

Assessing control of an investee

- 8.4 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.
- 8.5 An investor controls an investee if, and only if, 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.
- 8.6 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 8.5.
- 8.7 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; and
 - (e) developing budgets in relation to the activities in (a) – (d).
- 8.8 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.

- 8.9 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.
- 8.10 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.
- 8.11 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 simply because other parties can benefit from the decisions it makes.
- 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 (see paragraph 8.13); or
 - (e) a combination of (a)–(d).
- 8.13 When assessing control, an investor considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has power. 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.
- 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.

Consolidation procedures

- 8.15 Consolidated financial statements present financial information about the group as a single reporting entity. 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 *Impairment of Assets*);
 - (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: *Entity Combinations*; and
 - (ii) the non-controlling interests' share of changes in equity since the date of the combination.
- 8.16 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

- 8.17 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

- 8.18 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

- 8.19 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~~ for the duration of the parent's control of the subsidiary.

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

- (a) ceases recording:
 - (i) the assets ~~(including any goodwill)~~ and liabilities at their carrying amounts at the date control is lost in the former subsidiary from the consolidated statement of financial position; and
 - (ii) the carrying amount of any non-controlling interests in the former subsidiary at the date when 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 on the date control is lost; and
- (c) records the gain or loss associated with the loss of control attributable to the former ~~controlling interest~~ parent.

- 8.21 If a parent loses control of a subsidiary but continues to hold an investment in the former subsidiary, that investment shall be accounted for in accordance with other sections of this Standard. If the retained interest is a financial asset, Section 11 *Financial Instruments* applies; and if it is an interest in an associate or a joint venture, Section 13 *Investments in Associates and Joint Arrangements* applies. The fair value on 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

- 8.22 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).

- 8.23 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 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 ~~(including goodwill)~~ or liabilities as a result of such transactions.

- 8.24 An entity shall disclose non-controlling interests in the profit or loss of the group separately in the statement of profit or loss and other comprehensive income, as required by paragraph 4.5 (or in the statement of comprehensive income, if presented, as required by paragraph 4.6).
- 8.25 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

- 8.26 Consolidated financial statements shall disclose:
- (a) the fact 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;
 - (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; and
 - (e) information about its subsidiaries in accordance with paragraphs 28.8–28.14.

Disclosures about notable relationships in financial statements other than consolidated financial statements

- 8.27 Notwithstanding the disclosure requirements in paragraph 8.31, if the reporting entity has a notable relationship with another entity (see paragraphs 8.28 and 8.29), it shall make the disclosures specified is not required to make those disclosures in paragraph 8.31, except that it may elect not to make those disclosures when:
- (a) the notable relationship entity is incorporated in consolidated financial statements presented by the reporting entity for the period because:
 - (i) it is included as a subsidiary; or
 - (ii) it is an associate or a joint venture of a reporting entity with one or more subsidiaries and the reporting entity's investment in it is included in the consolidated financial statements (see paragraph 13.12, including the relevant disclosures in paragraphs 13.25–13.28); or
 - (b) the reporting entity has no subsidiaries and the notable relationship entity is an associate or a joint venture in which the reporting entity's investment is measured in separate financial statements at fair value (through profit or loss or in other comprehensive income) or by applying the equity method (see paragraph 13.13). Instead, the reporting entity shall disclose the relevant information required by paragraphs 13.25–13.28.
- 8.28 A notable relationship of the reporting entity with another entity ('notable relationship entity') exists when the reporting entity has at least significant influence over that entity (with or without holding an investment in the other entity's equity instruments, if any exist). This includes, but is not limited to, having control or joint control over that other entity. Significant influence is the power to participate in the financial and operating policy decisions of an entity, without having control or joint control over those policies.
- 8.29 If the reporting entity holds, directly or indirectly (eg through entities it controls), 20 per cent or more of the voting power of another entity, it is presumed to have significant influence over that entity, unless it can clearly be demonstrated that this is not the case based on other factors. Conversely, if the reporting entity holds, directly or indirectly, less than 20 per cent of the voting power of another entity, it is presumed not to have significant influence over that entity, unless significant influence can clearly be demonstrated based on other factors. In assessing a reporting entity's voting power over another entity, the existence and effect of potential voting rights currently exercisable or convertible (including potential voting rights held by other entities) are considered.
- 8.30 An entity applies judgement in assessing whether it has significant influence over another entity. The existence of a reporting entity's significant influence over another entity is usually evidenced by one or more of the following factors:
- (a) representation on the board of directors or equivalent governing body of the other entity;
 - (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 between the two entities; and
- (e) exchange of essential technical information between the two entities.

8.31 In respect of each notable relationship entity, an entity shall disclose:

- (a) its name;
- (b) a description of its relationship with the reporting entity;
- (c) a clear and concise description of its primary purpose and an indication of the nature of its operations;
- (d) whether the notable relationship entity prepares audited or reviewed financial statements; and
- (e) information required by paragraphs 28.8–28.14.

Separate financial statements

Presentation of separate financial statements

8.32 ~~This Standard does not require presentation of separate financial statements for a parent entity or individually for its subsidiaries, unless a parent entity selects the option in paragraph 8.2(b).~~

8.33 Separate financial statements are:

- (a) a second set of financial statements that a parent entity elects to present in addition to consolidated financial statements ~~prepared by a parent~~; or
- (b) financial statements prepared by a reporting entity that has one or more notable relationships and does not ~~prepare~~ present consolidated financial statements, including:
 - (i) an investor that is not a parent with investments in associates or joint ventures; or
 - (ii) a parent that elects to present separate financial statements only, instead of consolidated financial statements).

The financial statements of an entity without notable relationships are not separate financial statements.

Accounting policy election

8.34 When a reporting entity with one or more notable relationships prepares separate financial statements and describes them as conforming to this Standard, those statements shall adopt a policy of accounting for its investments in notable relationship entities in its separate financial statements at any of:

- (a) cost;
- (b) 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; or
- (c) its equity method-based amount determined by following the procedures in paragraph ~~8.15~~ 13.16.

The entity shall apply the same accounting policy for all investments in a single class (subsidiaries, associates or joint venture), but can elect different policies for different classes. When an entity presents changes in the fair value of particular investments in other comprehensive income, those changes shall not subsequently be transferred to profit or loss. Any set of separate financial statements prepared by

Disclosures in separate financial statements

8.35 Any separate financial statements prepared by an investor in a notable relationship entity shall disclose:

- (a) that they are separate financial statements; and
- (b) a description of the methods used to account for the investments in notable relationship entities.

For entities other than those applying paragraph 8.27, these disclosures are additional to those in paragraph 8.31.

Note to Board members

- (i) In Agenda Paper 3.5 for this meeting, staff asked Subcommittee members whether they agreed with:

- (a) adding an explicit disclosure requirement to address stakeholders concerns about not requiring restatement of prior period comparative information (expressed mainly in relation to corrections of prior period errors that not correcting comparative information might mislead users or impede the ability for auditors to express an opinion that the financial statements provide a true and fair view) for the following (refer to draft paragraphs 9.13 and 9.25):
- (i) an entity's statement of significant accounting policies must state that a modified retrospective approach is applied to accounting for changes in accounting policies and correction of errors in prior period financial statements; and
 - (ii) financial statements that include changes in accounting policies or corrections of prior period errors must include an explicit statement that disclosed adjustments to the opening balances for the current period are not reflected in the comparative information presented for prior periods.

Feedback from Subcommittee: The Subcommittee members who commented agreed with the suggested disclosures to be required.

- (b) Omitting the AASB 1060 (and identical requirements in IFRS for SMEs Accounting Standard ED) from the Tier 3 ED:
- (i) When a change in accounting policy results in an amendment to the relevant Standard, disclosures about the change in accounting policy would be required when it is possible that the change might have an effect on future periods; and
 - (ii) The requirement to disclose the estimated effect of a change in an accounting estimate in one or more future periods, whether practicable.

Staff recommended not to require the disclosures in paragraph (b) above because staff think assessing whether mandated changes in accounting policies might have an effect (implicitly material) on future periods would be particularly difficult for Tier 3 NFP entities, which are less likely than larger entities to have expertise in making such assessments, and therefore is unlikely to be proportionate for Tier 3 NFP entities. In addition, staff noted that the New Zealand Tier 3 Standard does not require disclosures about changes in accounting policies whenever they might have an effect on future periods. (Refer to Agenda Paper 3.5 for more information)

Feedback from Subcommittee: The Subcommittee members who commented agreed with the suggested disclosures to be required.

- (c) Not include the text of the IFRS for SMEs ED on any transitional provisions for when a Tier 3 NFP entity changes an accounting policy in response to a change in a Tier 2 requirements with which it is required to comply pursuant to the Application paragraph 1.3 of the Tier 3 Standard. This matter came about because Tier 3 Standard refer entities to apply the Tier 2 requirements for transactions, events and other conditions that are contained in draft paragraph 1.3 and the requirements for Tier 3 entities in relation to changes in accounting policies resulting from amendments to those Tier 2 pronouncements. Staff presented two options being:
- (i) Option 1 – add specific provisions to the Accounting Policies (etc.) section of the Tier 3 Standard to cater for changes to Tier 2 requirements with which Tier 3 NFP entities are required to comply; or
 - (ii) Option 2 – add to the Application paragraph of the Tier 3 Standard (most recently drafted as para. 1.3(b) of the work-in-progress draft Tier 3 ED) an explicit reference to applying the transitional provisions of the cross-referenced Tier 2 requirements. An example of the text to achieve this is shown (in italics) below as a mark-up of para. 1.3(b) of the work-in-progress draft Tier 3 ED:

1.3 A not-for-profit private sector entity that is eligible for, and is required to or elects to apply, the Tier 3 reporting requirements in preparing general purpose financial statements shall apply ... (b) the recognition, measurement, ~~and~~ presentation and transition requirements of the following Australian Accounting Standards and

Interpretation, and any related disclosure requirements (other than transition) in AASB 1060 [title]: ...

Under Option 1, if no transitional provisions were specified in the Tier 3 Standard for amendment to cross-referenced Tier 2 requirements, the Tier 3 NFP entity would apply the Tier 3 requirement for changes in accounting policies (i.e. modified retrospective approach). Whereas Option 2 would cross-reference to Tier 2 pronouncements including transitional requirements with the application of para. 19(b) of AASB approach to changes in accounting policies (i.e. full retrospective application).

Feedback from Subcommittee: The Subcommittee members who commented agree with staff recommended Option 2 approach.

- (d) Omit any 'impracticability' exemptions from the common requirements of the IFRS for SMEs Accounting Standard and AASB 108 (recognition)/AASB (disclosures), as adapted from applying a 'modified retrospective approach' to changes in accounting policies and corrections of prior period errors. While Subcommittee members agreed with the omission of the 'impracticability' exemption, however, in the process of drafting the transitional requirements for Section 29: *Transition to General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*, staff noted some potential risks which are further discussed in Agenda Paper 3.3 for this meeting including **Questions 2 – 4** to Board members in that paper.
- (ii) Paragraphs 9.4 – 9.6 below were previously considered by the Board in Agenda Paper 4.3 at the March 2024 Board meeting. No changes were made to those paragraphs.

Section 9: Accounting Policies, Estimates and Errors

Scope of this section

- 9.1 This section provides 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 (encompassing the requirements referred to in paragraph 9.3 does not specifically address a transaction, other event or condition to which paragraph 3(b) does not apply, an entity's 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 principles and other reporting requirements 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, to the extent that they do not conflict with this Standard.

In making this judgement, management may also consider the requirements and guidance in Tier 2 reporting requirements dealing with similar and related issues.

- 9.6 If an accounting policy permitted or required for a transaction, other event or condition by Tier 1 or Tier 2 reporting requirements is not included in this Standard, an entity applying Tier 3 reporting requirements may apply that accounting policy only where the transaction, other event or condition is not specifically addressed by this Standard. Consequently, an entity applying Tier 3 reporting requirements shall not apply Tier 1 or Tier 2 reporting requirements that conflict with the Tier 3 requirements.

Consistency of accounting policies

- 9.7 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

- 9.8 An entity shall change an accounting policy only if the change:
- (a) is required by changes to 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.
- 9.9 If this Standard allows a choice of accounting treatment (including the measurement basis) for a specified transaction or other event or condition and an entity changes its previous choice, that is a change in an accounting policy. A change to the cost model when a reliable measure of fair value is no longer available, or reverting to 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.

~~9.10 A change in the measurement basis applied is a change in an accounting policy, not a change in an accounting estimate. However, an entity shall initially apply a policy to revalue assets prospectively in accordance with Section 15 *Property, Plant and Equipment* instead of in accordance with paragraphs 9.11–9.12.~~

Applying changes in accounting policies

- ~~9.410~~ Except when paragraph ~~9.4012~~ applies, an entity shall account for:
- (a) a change in accounting policy resulting from a change in the requirements of this Standard in accordance with the transitional provisions, if any, specified in that amendment; and
 - (b) all other changes in accounting policy using a modified retrospective approach (see paragraph ~~9.4211~~). This applies to voluntary changes in accounting policy and changes in accounting policy resulting from a change in the requirements of this Standard without accompanying specified transitional provisions.

Modified retrospective approach

- ~~9.4211~~ When a change in an accounting policy ~~or correction of a prior period error~~ is applied using a modified retrospective approach in accordance with paragraph ~~9.4110~~ ~~or 9.23~~, the entity shall record the cumulative effect of the new accounting policy ~~or correction of a prior period error~~ as if the new accounting policy had always been applied ~~or prior period error had not been made~~, without restating information presented for comparative periods. The entity implements this requirement by:
- (a) as at the beginning of the reporting period in which the new accounting policy is first applied ~~or the prior period error is corrected~~ (the 'current period'):
 - (i) applying the new accounting policy ~~or correction~~ to the carrying amounts of assets and liabilities as at that date; and

- (ii) making a corresponding adjustment to the opening balance of each affected component of equity (eg retained earnings) for that period; and
- (b) recording the effects of transactions and other events for the current period in (a) by applying the new accounting policy ~~or corrected method of recording~~ to that period.

Making the adjustments in (a) to opening balances for the current period ensures the profit or loss and any other components of comprehensive income for that period are unaffected by the effects of the change in accounting policy ~~or error~~ pertaining to prior periods.

~~9.1012—A change in the measurement basis applied is a change in an accounting policy, not a change in an accounting estimate. However, an entity shall initially apply a policy to revalue assets prospectively in accordance with Section 15 *Property, Plant and Equipment* instead of in accordance with paragraphs 9.11–9.12. Although a change in the measurement basis applied is a change in an accounting policy, not a change in an accounting estimate, this Standard requires it be accounted for similarly to a change in an accounting estimate (ie prospectively, consistent with paragraph 9.18).~~

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; 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 is used to account for a change in an accounting policy, the entity's statement of significant accounting policies shall disclose that fact and therefore that comparative information presented for prior periods was not adjusted in line with the adjustments to opening balances for the current period.

- 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 that 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 or categories 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 9.19 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 a change 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. An entity shall correct a material prior period error using a modified retrospective approach ~~as described in paragraph 9.12~~ in the first financial statements authorised for issue after its discovery. Using a modified retrospective approach, the entity shall record the cumulative effect of the correction of the prior period error as if the prior period error had not been made, without restating information presented for comparative periods. The entity implements this requirement by:
- (a) as at the beginning of the reporting period in which the prior period error is corrected (the 'current period'):
 - (i) applying the correction to the carrying amounts of assets and liabilities as at that date; and
 - (ii) making a corresponding adjustment to the opening balance of each affected component of equity (eg retained earnings) for that period; and
 - (b) recording the effects of transactions and other events for the current period in (a) by applying the corrected method of recording to that period.
- Making the adjustments in 9.23(a) to opening balances for the current period ensures the profit or loss and any other components of comprehensive income for that period are unaffected by the effects of the error pertaining to prior periods.

Disclosure of prior period errors

- 9.24 An entity shall disclose the following about each prior period error:
- (a) a description of the error and how it was corrected; and
 - (b) the amount of the correction to the opening balances of assets, liabilities and items of equity for the current period.
- Financial statements of subsequent periods need not repeat these disclosures.
- 9.25 Disclosure of how a prior period error was corrected (in accordance with paragraph 9.24(a)) includes disclosing that a modified retrospective approach was used and therefore that comparative information presented for prior periods was not restated in line with the corrections to opening balances for the current period. Application of a modified retrospective approach to correct prior period errors shall be disclosed in the entity's statement of significant accounting policies.

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 the recording, measurement and disclosure of financial assets and financial liabilities arising from basic financial instruments or financial instruments commonly held by Tier 3 not-for-profit private sector entities. Those 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) non-convertible ordinary and preference shares held in listed and non-listed entities, including 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 (whether bearing interest at fixed or variable rates, interest-free or including terms that create leverage). Loans may be amounts borrowed or lent.

10.3 An entity applying this Standard shall apply the requirements of AASB 9 *Financial Instruments* to account for more complex financial instruments and financial instruments not commonly held by Tier 3 not-for-profit private sector entities, such as the following financial instruments:

- (a) unlisted purchased debt instruments such as unlisted corporate bonds and convertible notes;
- (b) acquired equity instruments other than non-convertible ordinary and preference shares;
- (c) financial guarantee contracts;
- (d) derivatives such as interest rate swaps and forward exchange contracts; and
- (e) commitments to provide a loan at a below-market interest rate. However, loans provided at a below-market interest rate are within the scope of this Standard (see paragraph 10.2(i)).

However, the entity shall apply the disclosure requirements of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* instead of the disclosure requirements of AASB 7.

Initial recording of financial assets and liabilities

10.4 An entity shall record a financial asset or a financial liability when and only when:

- (a) cash is received; or
- (b) the entity becomes a party to the contractual provisions of the instrument. This occurs when:
 - (i) the entity creates an entitlement to receive cash from a debtor by transferring goods or services to the debtor;
 - (ii) the entity creates a loan receivable by lending money to a borrower;
 - (iii) the entity acquires (through purchase or donation) an investment that is a financial asset (eg an equity instrument);
 - (iv) the entity receives borrowed cash (including when it draws down cash under a bank overdraft facility); or
 - (v) the entity receives goods or services from a supplier and incurs a liability to pay for them.

Initial measurement

10.5 Subject to paragraph 10.5A, when a financial asset or financial liability is recorded initially, an entity shall measure it at its fair value (excluding transaction costs and fees incurred by the entity). Guidance on measuring the fair value of debtors is set out in Section 20 *Revenue*.

10.5A When a concessional loan is recorded initially, an entity shall measure it at its transaction price (ie the amount of cash lent). A concessional loan is a loan with a contractual interest rate significantly less than the market rate of interest for similar loans as at the date of initial recording, where that lower rate is contracted principally to enable the borrower to further its not-for-profit objectives.

Subsequent measurement

10.6 At the end of each reporting period, an entity shall measure financial assets and financial liabilities as follows, without any adjustment for transaction costs:

- (a) financial assets acquired or originated by the entity to generate both income and a capital return for it (including all investments in equity instruments) shall be measured at fair value ~~as at each measurement date~~, except when a reliable measure of the fair value of an investment in an unlisted equity instrument is unavailable as at ~~a particular measurement date~~ (see paragraphs 10.11 and 10.12). Changes in the fair value of such financial assets shall be presented in profit or loss, unless the entity elects ~~to apply the treatment in (i)~~.

- (i) ~~an entity may elect~~ irrevocably, on initial recording of the first asset in a class of financial assets, to present changes in the fair value of that class in other comprehensive income;
- (b) all other financial assets shall be measured at cost (determined in accordance with paragraphs 10.14 and 10.15) less any accumulated impairment losses (determined in accordance with paragraphs 10.17–10.21); and
- (c) all financial liabilities shall be measured at cost (determined in accordance with paragraphs 10.14 and 10.15).

When an entity presents changes in the fair value of a class of financial assets in other comprehensive income, those changes shall not subsequently be transferred to profit or loss.

Hedge accounting

- 10.7 Hedge accounting, which causes the gain or loss on a designated hedging instrument and a related hedged item to be recorded concurrently in profit or loss, is not permitted for entities applying this Standard. This is the case regardless of whether the financial instrument(s) in the hedging relationship is (are) accounted for in accordance with the requirements of this Standard or of AASB 9.

Cost as estimated fair value of investments in equity instruments

- 10.8 In accordance with paragraphs 10.5 and 10.6(a) and subject to the exception in paragraph 10.11, all investments in equity instruments must be measured at fair value, using valuation techniques that maximise the use of relevant observable inputs. On subsequent measurement of an investment in unquoted equity instruments, in limited circumstances, cost (excluding transaction fees and other costs incurred by the entity) might be an appropriate estimate of the investment's fair value. That 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.
- 10.9 Examples of indicators that cost might not be a reliable measure of fair value include:
- (a) the transaction to acquire the share investment was between related parties. However, the price in a related party transaction might be used as an input to a fair value measurement if the transaction was conducted on commercial terms;
 - (b) the acquisition transaction occurred under duress or the seller was forced to accept the sales price in the transaction (eg the seller was experiencing financial difficulty); and
 - (c) any significant unexpected changes or other developments since the investment was acquired, whether favourable or unfavourable, in:
 - (i) the investee's operating performance, strategy or economic environment (including its outputs or market demand for its outputs); or
 - (ii) valuations implied by the overall market (eg due to changes in market interest rates).
- 10.10 Cost is never the best estimate of fair value for investments in quoted equity instruments.
- 10.11 A reliable measure of the fair value of an equity instrument will always be available for a quoted equity instrument. If a reliable measure of fair value of an investment in an unlisted equity instrument is unavailable as at the measurement date, its carrying amount at the last date the asset was reliably measurable becomes its new cost. An entity shall measure the asset at this cost amount less any accumulated impairment losses until a reliable measure of fair value becomes available.
- 10.12 For the purposes of paragraph 10.11, a reliable measure of the fair value of an investment in an unlisted equity instrument is unavailable as at the measurement date if:
- (a) the market price of the equity instrument, or a similar equity instrument, close to the measurement date is not observable;
 - (b) the range of reasonable fair value measures is significant and the probabilities of the various measures cannot be reasonably assessed; and
 - (c) for reasons such as those listed in paragraph 10.9, the cost of the equity instrument is not a reliable measure of its fair value.

Dividend income

- 10.13 Dividends are recorded as amounts receivable and income in profit or loss only when:

- (a) an investee of the entity has declared a dividend payable to the entity for a determinable amount; and
- (b) publicly available information does not indicate the investee is experiencing financial difficulties that might jeopardise payment of the dividend to the entity.

Cost of a financial asset or financial liability

10.14 The cost of a financial asset or financial liability at each reporting date (before any reduction, directly or through the use of an allowance account, for impairment of a financial asset in accordance with paragraphs 10.17–10.21) is the net of the following amounts:

- (a) the amount at which the financial asset or financial liability is measured initial recording;
- (b) minus any repayments of the principal; and
- (c) plus or minus any prepayments or overdue payments of contractual interest.

Interest expense/income

10.15 The interest expense (income) in a period equals the carrying amount of the financial liability (asset) at the beginning of a period multiplied by the contractual interest rate for the period.

Impairment of debtors and financial assets measured at cost

Recording

10.16 At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any financial asset, or group of financial assets, in the following categories:

- (a) debtors within the scope of Section 20 on *Revenue*; and
- (b) any financial assets measured at cost in accordance with paragraphs 10.6(b).

If there is objective evidence of impairment, the entity shall record an impairment loss in profit or loss immediately.

10.17 Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the holder of the asset 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 creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider;
- (d) it has become probable that the debtor will enter bankruptcy or other financial reorganisation; or
- (e) observable data indicating that 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 the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

10.18 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.

10.19 An entity uses judgement to determine whether to assess financial assets for impairment either individually or grouped on the basis of similar credit risk characteristics.

Measurement

10.20 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 present value of estimated cash flows discounted at the asset's contractual interest rate.

Ceasing to record a financial asset

10.21 An entity shall cease recording 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

- 10.22 An entity shall cease to record a financial liability (or a part of a financial liability) only when it is extinguished — ie when the obligation specified in the contract is discharged, is cancelled or expires.
- 10.23 A modification of the terms of a financial liability or an exchange of a debt instrument~~s~~ for a different debt instrument shall be accounted for as an extinguishment of the original financial liability.

Disclosures

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

- 10.24 An entity shall disclose the nature and carrying amounts of each of the following categories of financial assets and financial liabilities 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 (paragraph 10.6(a));
 - (b) financial assets measured at fair value through other comprehensive income (paragraphs 10.6(a)(i) and (ii));
 - (c) financial assets measured at cost less any accumulated impairment losses (paragraph 10.6(b)); and
 - (d) financial liabilities measured at cost (paragraph 10.6(c)).
- 10.25 In respect of individually significant loans payable or receivable, an entity shall disclose additional information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. For example, for individually significant long-term debt, such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity and, for debt payable, restrictions that the debt instrument imposes on the entity).
- 10.26 For all financial assets and financial liabilities measured at fair value, the entity shall disclose separately the fair value amounts that are, and are not, based on a quoted price in an active market.

Collateral

- 10.27 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;
 - (b) the nature and amount of the liabilities for which the financial assets have been pledged; and
 - (c) the terms and conditions relating to its pledge.

Defaults and breaches on loans payable

- 10.28 For loans payable recorded 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 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

- 10.29 An entity shall disclose the following items of income and expense, and 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 measured at cost;
- (b) total interest income and total interest expense (calculated using the contractual interest rate) for financial assets or financial liabilities that are not measured at fair value through profit or loss; 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 (not a forced transaction) to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (that is, 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 costs of marketing an asset for sale). 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 (such as an item of 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 (for example, the ~~existing~~ location (either existing or new) or size of a property);
 - (b) any legal restrictions affecting the market participant's use of the asset (for example, the zoning regulations applicable to a property); and
 - (c) 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.
- 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. In general, 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 the service capacity of an asset (often referred to as current replacement cost: see paragraph 11.10).
 - (c) the income approach discounts future cash flows or income and expense items to their present value.
- 11.10 From the perspective of a market participant seller, the price that would be received for the 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 or 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 or 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 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.
- 11.13 If a reliable measure of fair value is no longer available for an asset measured at fair value (for example, see paragraphs 10.6(a) and 10.11), its carrying amount at the last date the asset was reliably measurable becomes its new cost. An entity shall measure the asset at this cost amount less any accumulated depreciation and any accumulated impairment losses until a reliable measure of fair value becomes available

Section 12: Inventories

Scope of this section

- 12.1 This section sets out the principles for recording, measuring and disclosing all 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, such as education/training course materials under development.

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 Subject to paragraphs 12.5 and 12.8, an entity shall measure inventories at cost. However, if, and only if, one or more of the circumstances in paragraph 23.3 arises, an entity shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell of inventory (or inventories).
- 12.5 An entity shall measure inventories held for distribution (ie inventories held for distribution for no, or nominal, consideration in return) at cost. However, if, and only if one or more of the circumstances in paragraph 23.3 arises, an entity shall consider whether a loss of service potential of inventory (or inventories) held for distribution has occurred.
- 12.6 If one or more of the circumstances in paragraph 23.3 in respect of inventory (or inventories) held for distribution, an entity would need to use judgment in determining the factors relevant to the circumstances in assessing whether there is a loss of service potential of those inventories. For many inventories held for distribution, a loss of service potential would be identified and measured based on the existence of a current replacement cost lower than the original acquisition cost or other subsequent carrying amount. For other inventories held for distribution, a loss of service potential might be identified and measured based on obsolescence (whether physical or economic). Typically, such obsolescence would also result in a reduction in the inventories' current replacement cost. In accordance with paragraph 23.5, the recoverable amount of inventories no longer useful for distribution is measured by reference to the more easily determined of those inventories' cost or current replacement cost.
- 12.7 Different bases for determining whether there has been a loss of service potential and the measurement of that loss may apply to different inventories held for distribution within the same entity.
- 12.8 For the purposes of applying paragraphs 12.4 and 12.5, if an item of inventory was donated (~~which the cost might be nil, a nominal amount or another significantly discounted amount~~) to the entity, that entity may elect to initially measure the cost of that item either at:
- its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount); or
 - a reliable measure of its current replacement cost as at the date of donation, measured in accordance with paragraphs 11.9(b) and 11.10.

When paragraph 12.8(b) is selected and the cost of a donated item of inventory is initially measured at its current replacement cost, the resulting increase in net assets is recorded as donation income in the reporting period in which the donated asset is received.

Cost of inventories

- 12.9 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 and ~~other inputs such as overheads~~ into finished goods). An entity may also include in 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. This election shall be applied consistently to all inventories produced by the entity.

Costs of purchase

- 12.10 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

- 12.11 Examples of costs excluded from the cost of inventories and recorded as expenses in the period in which they are incurred are:
- abnormal amounts of wasted materials, labour or other production costs;
 - storage costs, unless those costs are necessary during the production process before a further production stage;
 - 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.

Cost of inventories of a service provider

- 12.12 To the extent that service providers have inventories, they measure them 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 (where the entity elects to include production overhead costs in the costs of inventories) attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recorded as expenses in the 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.

Costs of agricultural produce harvested from biological assets

- ~~12.13 Inventories comprising agricultural produce that an entity has harvested from its biological assets shall initially be measured at their fair value less estimated costs to sell at the point of harvest. This becomes the cost of the inventories at that date for application of this section.~~

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

- 12.13 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. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They 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

- 12.14 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

- 12.15 When inventories are sold, the entity shall record the carrying amount of those inventories as an expense in the period in which the related sales revenue is recorded.
- 12.16 When inventories held for distribution are distributed, the carrying amount of those inventories shall be recorded as an expense. The amount of any write-down of inventories for loss of service potential and all losses of inventories shall be recorded as an expense in the period in which the write-down or loss occurs.
- 12.17 If an item of inventory was donated without charge to the entity, and the entity elected under paragraph 12.8 to initially measure the cost of that item at the cost to the entity (nil), no expense is recorded on sale or distribution of the item.

Disclosures

- 12.18 An entity shall disclose the following:
- (a) material 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 period;

- (d) the net amount of impairment losses for inventories recorded in profit or loss in accordance with Section 23 *Impairment of Assets* during the period; and
 - (e) the total carrying amount of inventories pledged as security for loans (including the nature and amount of loans that are secured).
- 12.19 An entity shall ~~also~~ disclose the basis or bases on which any loss of service potential of inventories held for distribution is assessed.
- 12.20 Where, in accordance with paragraph 12.8(a), an entity has elected to initially measure at cost donated item(s) of inventory, it shall make the same disclosures about the donated item(s) as those required by paragraphs 15.29 and 15.30 for donated items of property, plant and equipment that the entity elected to initially measure at cost.

Section 13: Investments in Associates and Joint Arrangements

Scope of this section

- 13.1 This section applies in:
- (a) consolidated financial statements to accounting for associates and by participants in joint arrangements (in this section: ‘parties’); 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 Paragraph 8.33 establishes the requirements for accounting in separate financial statements for associates and for a party’s interest in a joint venture.

Associates defined

- 13.3 An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor a joint arrangement.
- 13.4 Significant influence is ~~the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies. In applying that principle:~~
- (a) ~~if an investor holds, directly or indirectly (for example, through subsidiaries), 20 per cent or more of the voting power of the associate, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case;~~
 - (b) ~~conversely, if the investor holds, directly or indirectly (for example, through subsidiaries), less than 20 per cent of the voting power of the associate, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated; and~~
 - (c) ~~a substantial or majority ownership by another investor does not preclude an investor from having significant influence.~~
- defined in paragraphs 8.29 and 8.30.

Joint arrangements defined

- 13.5 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.
- 13.6 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. However, an entity that prepares separate financial statements in accordance with paragraph 8.2(b) is not required to make such an assessment. 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). For guidance on the meaning of ‘returns’ in the not-for-profit context of entities applying this Standard, refer to paragraph 8.10.
- 13.7 A joint arrangement is an arrangement of which two or more parties have joint control. Joint arrangements can take the form of a joint operations or a joint venture.
- 13.8 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.

- 13.9 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. A joint arrangement that is not structured through a separate vehicle is a joint operation. 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. When the parties have structured a joint arrangement in a separate vehicle, the parties need to assess whether the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, any other facts and circumstances give them:
- (a) rights to the assets, and obligations for the liabilities, relating to the arrangement (ie the arrangement is a joint operation); or
 - (b) rights to the net assets of the arrangement (ie the arrangement is a joint venture).

Joint controlled operations

- 13.10 A joint operation is a joint arrangement whereby the parties with joint control of the arrangement (‘joint operators’) have rights to the assets, and obligations for the liabilities, relating to the arrangement. ~~The operation of some A joint arrangement operation~~ involves the use of the assets and other resources of the ~~parties to the joint arrangement operators~~ instead of the establishment of a corporation, partnership or other entity, or a financial structure separate from the parties themselves. Each ~~party~~ 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 arrangement operation’s~~ activities may be carried out by the ~~party’s joint operator’s~~ employees alongside that ~~party’s 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 ~~parties~~ joint operators. The accounting entries for ~~jointly controlled operations~~ joint operators are specified in paragraph 13.19.

Joint ventures

- 13.11 A joint venture is a joint arrangement whereby the parties with joint control of the arrangement have rights to the net assets of the arrangement. The measurement requirements for investments in joint ventures are specified in paragraphs 13.12 and 13.13.

Measurement of investments in associates and jointly-entities ventures

Measurement in consolidated financial statements

- 13.12 In consolidated financial statements (if any) of a parent entity investor, that investor shall account for its investments in associates and joint ventures using the equity method in paragraph 13.16.

Measurement in financial statements that are not consolidated financial statements – accounting policy election

- 13.13 In financial statements that are not consolidated financial statements of an investor, an investor shall account for all its investments in associates and joint ventures using one of the following:
- (a) the cost model in paragraphs 13.14 and 13.15;
 - (b) the equity method in paragraph 13.16; or
 - (c) the fair value model in paragraphs 13.17 and 13.18.

Cost model

- 13.14 An investor in an associate or a joint venture shall measure those investments at cost less any accumulated impairment losses recorded in accordance with Section 23 *Impairment of Assets*.
- 13.15 An investor in an associate or a joint venture shall record dividends and other distributions received from the investment as income without regard to whether the distributions are from accumulated profits of the associate or joint venture arising before or after the date of acquisition.

Equity method

- 13.16 Under the equity method of accounting, an equity investment in an associate or a ~~jointly controlled entity venture~~ (in either case in this paragraph, an ‘investee’) is initially recorded at the consideration paid (including transaction costs) measured at the carrying amount of the net assets transferred in exchange, and subsequently is 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 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 (as applicable) 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) ~~*implicit goodwill and fair value adjustments for difference between the consideration paid by the acquirer and share of net assets acquired.*~~ On acquisition of ~~the~~ its investment in an investee, an investor shall ~~account for~~ record any difference (whether positive or negative) between the ~~cost of acquisition~~ transaction price and the investor’s share of the ~~fair values~~ carrying amounts of the net identifiable assets of the investee directly in equity, ~~accordance with [TBU Section X Business Combination and Goodwill paragraphs 19.10M–19.10O and 19.23].~~ An investor shall adjust its share of the investee’s profits or losses after acquisition to account for additional depreciation or amortisation of the investee’s depreciable or amortisable assets on the basis of the excess of their fair values over their carrying amounts when the investment was acquired. ~~However, amortisation of goodwill implicit in the investment’s carrying amount (‘implicit goodwill’) is not permitted; such goodwill is written down only if it is impaired.~~
 - (d) *impairment.* If there is an indication that an investment in an investee might be impaired, an investor shall test the entire carrying amount of the investment, including financial instruments that in substance form part of the investor’s net investment in the associate, for impairment in accordance with Section 23, as a single asset. A financial instrument for which settlement neither is planned nor likely to occur in the foreseeable future is, in substance, part of the investor’s net investment (for example, this may include preference shares or long-term receivables or loans). An investor shall apply Section 10 *Financial Instruments* to any such financial instrument before it applies this paragraph or paragraph 13.16(h). ~~Any goodwill included as part of the carrying amount of the investment in the investee is not tested separately for impairment but, instead, as part of the test for impairment of the investment as a whole.~~
 - (e) *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.
 - (f) *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 accounting 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.
 - (g) *investee’s accounting policies.* If the investee uses different accounting policies from those of the investor, the investor shall 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.
 - (h) *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. The investment in an investee is the carrying amount of the investment determined using the equity method together with any financial instruments that in substance form part of the investor’s net investment in the associate (see paragraph 13.16(d)). 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 *Provisions and Contingencies*) 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.

Fair value model

- 13.17 When an investment in an associate or a joint venture is recorded initially, the investor shall measure it at the transaction price. Transaction price excludes transaction costs, such as legal fees or other fees incurred as a direct result of buying the investment.
- 13.18 At each reporting date, an investor shall measure its investments in associates and joint-ventures at fair value, using the fair value measurement guidance in Section 11. Changes in the fair value of the investments shall be recorded in profit or loss, except that if an investment is held to generate both income and a capital return, the investor may make an irrevocable election, upon initial recording of a particular investment, to record those changes in other comprehensive income. Any such election must be applied on a class-of-instruments basis. An investor using the fair value model shall use the cost model for any investment in an associate or joint venture for which fair value cannot be measured reliably.

Accounting for interests in joint operations

- 13.19 In respect of its interests in joint operations, a party 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 a party to the joint venturer and a joint venture

- 13.20 When a party ~~to~~ with joint control of a joint venture as defined in paragraph 13.11 (joint arrangement venturer) contributes or sells assets to the joint ~~arrangement~~ venture, recording 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~~ venture, and provided ~~the party to the joint arrangement venturer~~ the party joint venturer has transferred the significant risks and rewards of ownership, the ~~party joint venturer~~ party joint venturer shall record only the portion of the gain or loss attributable to the other ~~parties' venturers'~~ parties' venturers' interests. The ~~party joint venturer~~ party joint venturer shall record the full amount of any loss when the contribution or sale provides evidence of an impairment loss.
- 13.21 When a ~~party to a joint arrangement joint venturer~~ party joint venturer purchases assets from ~~the a joint arrangement venture~~ the joint arrangement venture, that ~~party venturer~~ party joint venturer shall not record its share of the profits of the joint ~~arrangement venture~~ venture from the transaction until it resells the assets to an independent party. A ~~party to the joint arrangement venturer~~ party joint venturer 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

- 13.22 A party 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 *Financial Instruments* unless it has significant influence over the joint venture, in which case it shall account for it as an investment in an associate in accordance with this section.
- 13.23 A party 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 13.19 if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If a party 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.

Financial statement presentation – investments in associates

- 13.24 An investor shall classify investments in associates as non-current assets.

Disclosures

- 13.25 An entity shall disclose the following:
- (a) its accounting policy for investments in associates and joint ventures (ie whether it uses the cost model, equity method or fair value model) unless the entity has made this disclosure in accordance with paragraph 8.35;
 - (b) the total carrying amounts, separately, of investments in associates (see) and investments in joint ventures (see paragraph 3.2(i));
 - (c) the total fair values, separately, of its investments in associates and investments in joint ventures for which a market price for the investment is quoted and the entity accounts for the investment using the equity method; 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.
- 13.26 For investments in associates accounted for using the cost model, an investor shall disclose the amount of dividends and other distributions recorded as income for the period. An investor shall also disclose the information required in paragraph 8.31 for its investments in associates and investments in joint ventures measured using the cost model.
- 13.27 An investor shall disclose separately for investments in associates, and investments in joint-ventures, accounted for using the equity method:
- (a) its share of the profit or loss; and
 - (b) its share of any discontinued operations.
- 13.28 For investments in associates and joint ventures accounted for using the fair value model, an investor shall make the disclosures required in paragraphs 10.24–10.26.

Note to Board members

- (1) In Agenda Paper 3.7 for this meeting, staff asked Subcommittee members whether they agreed with:
- (a) the staff's suggestion to exempt from the scope of the disclosures investment properties acquired for significantly less than fair value that have subsequently been revalued to fair value. The approach to develop disclosure requirements for non-financial assets acquired for significantly less than fair value and initially measured at cost was based on AASB 1060 (para. 151 – 152) for right-of-use assets arising under concessionary leases. Staff suggested disclosures where investment property was donated and initially measured at cost including the entity's dependence on donations of investment property and the nature and terms of the donation arrangement (see paragraph 14.13). Staff suggested exemption of disclosures for investment property acquired for significantly less than fair value as per paragraph 14.13 as staff observed that:
 - (i) the disclosure requirements in AASB 1060 para. 151 – 152, discussed in this question, are targeted at providing information about assets measured initially at cost (which might be nil or a nominal amount) to provide visibility of resources that otherwise might not be reported; and
 - (ii) the reason for those disclosures should largely disappear if the donated assets are measured at fair value.

Feedback from Subcommittee: The Subcommittee members who commented agreed with the suggested staff exemptions noted above.
 - (b) The manner and extent of cross-referencing corresponding requirements in draft Section 15, *Property, Plant and Equipment* to economise the text of Section 14 *Investment Property*? And whether Subcommittee members agreed that the requirements in the two sections are considerably distinct that integrating their text in an omnibus section would involve excessive complexity and achieve only limited savings in length (refer to Table 3 in Agenda Paper 3.7 at this meeting for further explanation).

Feedback from Subcommittee: The Subcommittee members who commented agreed that the sections are sufficiently distinct and therefore, agreed with the extent of cross-referencing used.

Section 14: Investment Properties

Scope of this section

- 14.1 This section applies to accounting for investments in land or buildings, or both, that meet the definition of investment property in paragraph 14.3. When investment property is initially measured at cost as required or permitted by paragraph 14.6, or measured after initial recording using the cost model as permitted by paragraph 14.8, the cost method requirements in paragraphs 15.5 and 15.6, 15.10 and 15.14–15.20 shall be applied.
- 14.2 This section also specifies that the disclosure requirements in paragraphs 15.29 and 15.30 of Section 15 are to be applied to investment properties in the circumstances described in paragraph 14.13.

Definition and initial recording of investment property

- 14.3 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'.
- 14.4 An entity shall record an investment property as an asset from when it is purchased by, or donated to, the entity.
- 14.5 Mixed-use property shall be classified and accounted for as property, plant and equipment in accordance with Section 15.

Initial measurement

- 14.6 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.
- When initial measurement in accordance with paragraph 14.6(b) is selected and the donated investment property is initially measured at its fair value, the resulting increase in net assets is recorded as donation income in the reporting period in which the donated asset is received.
- 14.7 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.

Measurement after initial recording

- 14.8 An entity shall choose either the cost model in Section 15 *Property, Plant and Equipment* or the fair value model as its accounting policy and, subject to paragraph 14.9, apply that model to measure all its investment properties after their initial recording. Under the fair value model in this section, investment properties are measured at fair value, measured in accordance with Section 11 *Fair Value Measurement*, at each reporting date with changes in fair value ~~recognised~~ recorded in profit or loss. Electing to apply the fair value model to investment properties is an accounting policy choice. Therefore, once that election is applied, the entity's investment properties shall continue to be measured on the fair value model thereafter (rather than reverting to being measured under the cost model).
- 14.8A If an entity elected, on initial recording, to record a donated asset at its fair value as at the date of the donation (ie applied the option in paragraph 14.6(b)) and elects to subsequently measure at cost the class of assets to which the donated asset belongs, the donated asset's initial fair value shall be deemed to be that asset's cost for the purposes of its subsequent measurement.
- 14.9 If the entity elected to apply the fair value model to its investment properties and:

- (a) ~~the fair value of a particular investment property cannot be measured reliably on an ongoing continuing basis, the entity shall measure that item using the cost model in accordance with paragraphs 15.5 and 15.6, 15.10 and 15.14–15.20, unless and The property's carrying amount when its fair value ceased being reliably measurable becomes its cost until reliable measurement of the property's fair value on an ongoing continuing basis becomes possible; and~~
- (b) ~~if fair value measurement of a particular investment property ceases because reliable measurement of the property's fair value on an ongoing continuing basis has become impossible, the property's carrying amount when its fair value ceased being reliably measurable becomes its cost under Section 15, and the entity subsequently measures the property in accordance with paragraphs 15.10 and 15.14–15.20.~~

Applying the cost model to particular investment properties in the circumstances described in this paragraph is not a difference in accounting policy.

Transfers

- 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.

Ceasing to record an investment property

- 14.11 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.
- 14.11A The gain or loss arising from the disposal or retirement of an investment property shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the property and shall be recorded in profit or loss in the period of the disposal or retirement.

Disclosures

- 14.12 If an entity's subsequent measurement basis for its investment properties is fair value through profit or loss, it shall disclose that fact and the following information about all investment properties other than those disclosed under Section 15:
- (a) the extent to which the fair value of investment properties measured on that basis 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 or for repairs, maintenance or enhancements;
 - (d) net gains or losses from fair value adjustments; and
 - (e) if the entity has investment properties the fair value of which cannot be measured reliably, that fact and the reasons why.
- 14.13 Where, in accordance with paragraph 14.6(a), an entity has elected to initially measure at cost a donated investment property, it shall make the same disclosures about that donated property as those required by paragraphs 15.27 and 15.28 of Section 15 for donated items of property, plant and equipment that the entity elects to initially measure at cost. However, for a donated investment property, it is unnecessary to comply with the requirement in paragraph 15.27(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 accounting for:
- (a) property, plant and equipment; and

- (b) investment property ~~whose~~ the fair value of which cannot be measured reliably on a continuing basis (to which Section 14 *Investment Property* ~~applies~~ paragraph 14.9 would otherwise apply).
- 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 period.

Recording an item

- 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: *Fair Value Measurement*.

When paragraph 15.4(b) is selected and the donated item of property, plant and equipment is initially measured at its fair value, the resulting increase in net assets is recorded as donation income in the reporting period in which the donated asset is received.

Elements of cost

- 15.5 The cost of an item of property, plant and equipment comprises all ~~of~~ the following:
- (a) its purchase price, 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 legal fees and installation costs). For self-constructed assets, an entity may include in these costs depreciation of other items of property, plant and equipment, or amortisation of intangible assets, used in their construction.
- (c) the initial estimate of any related restoration, rehabilitation or other “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); 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.

Measurement after initial recording

- 15.7 An entity shall choose either the cost model in paragraph 15.10 or the revaluation model in paragraph 15.11 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. This option is available regardless of whether a class of property, plant and equipment includes donated items and, if so, the option in paragraph 15.4 selected for initial measurement of those items. If an entity elected, on initial recording, to record a donated asset at its fair value as at the date of the donation (ie applied the option in paragraph 15.4(b)) and elects to subsequently measure at cost the class of assets to which the donated asset belongs, the donated asset’s initial fair value shall be deemed to be that asset’s cost for the purposes of its subsequent measurement.
- 15.7A An entity shall apply the cost model to ~~investment property~~ an item of property, plant and equipment within a class of assets measured under the revaluation model when the fair value of that item cannot be measured reliably (see paragraphs 11.11–11.13 for guidance on determining a reliable measure of fair value).

- 15.7B 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 period in which the costs are incurred.
- 15.8 Electing to revalue a class of property, plant and equipment after initially recording an item is an accounting policy choice. Therefore, once a class of property, plant and equipment is revalued it shall continue to be measured on the revaluation model thereafter (rather than reverting to being measured under the cost model).
- 15.9 For the purposes of paragraphs 15.7 and 15.8, a class of property, plant and equipment is a grouping of assets of a similar nature or function. Possible classes of property, plant and equipment are:
- (a) Land;
 - (b) Buildings;
 - (c) Motor vehicles;
 - (d) Furniture and fixtures;
 - (e) Office equipment;
 - (f) Computers (including software); and
 - (g) Machinery.

Cost model

- 15.10 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 (which are recorded and measured in accordance with Section 23 *Impairment of Assets*).

Revaluation model

- 15.11 An entity shall measure an item of property, plant and equipment whose fair value can be measured reliably at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses (which are recorded and measured in accordance with Section 23). 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 *Fair Value Measurement* provides guidance on determining fair value.

Recording revaluation increases and decreases

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

Depreciation

- 15.14 An entity shall allocate the depreciable amount of an asset on a systematic basis over its useful life. The resulting 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, an entity may elect to include the depreciation of manufacturing property, plant and equipment ~~is included~~ in the costs of inventories (see Section 12 *Inventories*). 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.
- 15.15 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 shall be depreciated over their useful lives as a single asset. Land has an unlimited useful life and therefore is not depreciated.

Depreciable amount and depreciation period

- 15.16 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.
 - (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.
- 15.17 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 or useful life of an asset has changed since the most recent annual reporting date. If such indicators are present, an 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 *Accounting Policies, Estimates and Errors*.
- 15.18 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 zero while there is no production.

Depreciation method

- 15.19 An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The 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.
- 15.20 If there is an indication that there has been a significant change since the last annual reporting date in the pattern by 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 recording an item

- 15.21 An entity shall cease recording an item of property, plant and equipment, and consequently record a gain or loss in profit or loss, when:
- (a) it is sold or otherwise disposed of; or
 - (b) no future economic benefits are expected from its use or disposal.
- 15.22 For the purposes of paragraph 15.21(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.
- 15.23 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 sale proceeds, if any, and the carrying amount of the item. The entity shall not classify such a gain as revenue.

Disclosures

- 15.24 An entity shall disclose the following for each class of property, plant and equipment determined in accordance with paragraph 15.9 and separately for investment property carried at cost less accumulated depreciation and impairment:
- (a) a description of the asset class (for example, equipment or furniture);

- (b) the measurement bases used;
 - (c) the carrying amount at the beginning and end of the reporting period;
 - (d) increases or decreases resulting from revaluations under paragraphs 15.15 and 15.16 and from impairment losses recorded in other comprehensive income in accordance with Section 23;
 - (e) impairment losses recorded in profit or loss in accordance with Section 23; and
 - (f) depreciation.
- 15.25 An entity shall also disclose the following:
- (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 (including the nature and amount of loans that are secured);
 - (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, it shall disclose that fact and the reasons why fair value cannot be measured reliably for those items of investment property.
- 15.26 If items of property, plant and equipment are stated at revalued amounts, an entity shall disclose the following:
- (a) the effective date of the revaluation; and
 - (b) whether an independent valuer was involved.
- 15.27 Where, in accordance with paragraph 15.5(a), an entity ~~elects~~ has elected to initially measure at cost a donated item of property, plant and equipment, it shall disclose information that helps users of financial statements to assess:
- (a) the entity's dependence on donations of ~~assets~~ 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.
- 15.28 The disclosures in paragraph 15.27 shall be provided for each donated asset that is individually material to assessing the aspects in part (a) or (b) of paragraph 15.27. However, such disclosures:
- (a) shall be aggregated for donated assets of a similar nature; and
 - (b) need not be made in respect of any such donated assets if they have subsequently been revalued to fair value.

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.

Note to Board members

In Agenda Paper 3.9 for this meeting, staff asked Subcommittee members whether they agreed with:

- (a) the extent the proposed simplifications of Tier 2 recognition, measurement and disclosure requirements reflected in the draft text for the section of the Tier 3 ED on Intangible Assets and whether members have any specific suggestions for amendments of the draft Tier 3 ED text.

Feedback from Subcommittee: The Subcommittee members who commented agreed except one Subcommittee member had the following concerns:

- (i) the term 'definite' (in para. 16.17 is that it may be interpreted to mean 'certain', thereby creating uncertainty about whether the useful life of an intangible asset can change. Referring to a 'definite' useful life in para. 16.17 and then permitting it to change in para. 16.22 may create confusion. The Oxford and Cambridge dictionaries state definite to mean 'fixed';
- (ii) Para 16.24 cross-refers to para 15.22, within which para 15.22(a) refers to "the asset has been damaged physically". This is not applicable to intangible assets;
- (iii) Para 16.19 introduces a degree of judgment/subjectivity by referring to an 'appropriate' portion of the amortisation charge; and
- (iv) the second part of para 16.25(e) can be shifted to 16.25(f) for further simplification.

Staff comments:

Staff agree with the Subcommittee member's comment in (i) and replaced 'definite' with 'finite' in the first line of para. 16.17 (see mark-up).

Staff agree with the Subcommittee member's comment in (ii) and replaced the cross-reference to para. 15.22 (in para. 16.24) with a cross-reference to para. 15.22(b): see mark-up.

Staff agree with the Subcommittee member's comment in (iii) that the use of 'appropriate portion' in para. 16.19 involves subjectivity. However, no greater clarity seems to be available in AASB 138 para. 99 (see extract in italics below), which uses 'sometimes' as the only qualifier. Therefore, staff suggest retaining 'appropriate portion' in para. 16.19. [AASB 138 para. 99 includes: "*Amortisation is usually recognised in profit or loss. However, sometimes the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the amortisation charge constitutes part of the cost of the other asset and is included in its carrying amount. ...*"].

Regarding the Subcommittee member's comment in (iv), staff suggest making no amendments to draft para. 16.25(e) and (f) because (1) both categories in para. 16.25(e) are recognised in other comprehensive income – therefore it seems logical to retain their grouping; and (2) moving the second part of draft para. 16.25(e) to para. 16.25(f) would create complexity because it would result in para. 16.25(f) including impairments that are recognised in different sections of comprehensive income.

(b) any concerns with the noteworthy issues identified in Table 2 of Agenda Paper 3.9 at this meeting, including, but not limited to:

- omitting the exception of IFRS for SMEs ED to immediate write-off of all expenditure incurred internally on an intangible item (that exception being to capitalise the expenditure if it forms part of the cost of another asset that meets the recognition criteria in the IFRS for SMEs ED);
- amending IFRS for SMEs ED to avoid references indicating that an unreliable estimate of an asset's useful life would be acceptable provided it does not exceed ten years;
- adding to para 15.5(b) in Section 15 for self-constructed assets, an entity may include in the costs directly attributable to bringing the asset to its necessary location and condition the depreciation of other items of property, plant and equipment, or amortisation of intangible assets, used in their construction;
- omitting the IFRS for SMES ED rebuttable presumption that revenue-based methods of amortisation of intangible assets are inappropriate;
- omitting to identify technological advancement as an indicator requiring a review of the factors affecting the amortisation of intangible assets; and
- further simplification of disclosures compared to Tier 2 requirements.

Feedback from Subcommittee: The Subcommittee members who commented agreed there are no further issues.

Section 16: Intangible Assets

Scope of this section

- 16.1 This section applies to accounting for all intangible assets (see Section 17 *Entity Combinations*). This section does not apply to financial assets.
- 16.2 An intangible asset is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when:
- (a) it 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) it 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

General principle for 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.
- 16.4 An entity shall measure an intangible asset initially 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 *Fair Value Measurement*.

When paragraph 16.4(b) is selected and the donated intangible asset is initially measured at its fair value, the resulting increase in net assets is recorded as donation income in the reporting period in which the donated asset is received.

Separate acquisition

- 16.5 The cost of a separately 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.

Acquisition as part of a entity combination

- 16.6 If an intangible asset is obtained in an entity combination, the cost of that intangible asset is its initial carrying amount as at the combination date, determined in accordance with paragraphs 17.5 and 17.6 of Section 17 *Entity Combinations*.

Internally generated intangible assets

- 16.7 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.
- 16.8 As examples of applying the preceding paragraph, 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.
- 16.9 Paragraph 16.8 does not preclude recognising 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

- 16.10 Expenditure on an intangible item that was initially recorded as an expense shall not subsequently be recorded as part of the cost of an asset.

Measurement after recognition

- 16.11 An entity shall choose either the cost model in paragraph 16.14 or the revaluation model in paragraphs 16.15 and 16.16 as its accounting policy and shall apply that policy to an entire class of intangible assets. However, 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. A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations.

- 16.12 The option in paragraph 16.11 is available regardless of whether a class of intangible assets includes donated assets and, if so, which option in paragraph 16.4 was selected for initial measurement of those items. If an entity elected, on initial recording, to record a donated asset at its fair value as at the date of donation (ie selected the option in paragraph 16.4(b)) and elects to subsequently measure at cost the class of assets to which the donated asset belongs, the donated asset's initial fair value shall be deemed to be that asset's cost for the purposes of its subsequent measurement.
- 16.13 Electing to revalue a class of intangible assets after initially recording them is an accounting policy choice. Therefore, once a class of intangible assets is revalued, it shall continue to be measured on the revaluation model thereafter (rather than reverting to being measured under the cost model) unless an active market for its assets no longer exists.

Cost model

- 16.14 If applying the cost model to a class of intangible assets after initial recording, an entity shall measure the intangible assets at cost less any accumulated amortisation and any accumulated impairment losses (which are recorded and measured in accordance with Section 23 *Impairment of Assets*). The requirements for amortisation are set out in this section.

Revaluation model

- 16.15 If applying the revaluation model to a class of intangible assets after initial recording, an entity shall measure at a revalued amount each intangible asset within that class for which its fair value can be measured by reference to an active market. The revalued amount of such an asset is its fair value at the date of the revaluation less any subsequent accumulated amortisation and subsequent accumulated impairment losses (which are recorded and measured in accordance with Section 23). 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 reporting date. Section 11 *Fair Value Measurement* provides guidance on determining fair value.

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 for that class shall be recorded in the same manner as revaluation increases and decreases for classes of property, plant and equipment, as specified in paragraphs 15.12 and 15.13.

Amortisation

Useful life

- 16.17 For the purpose of this Standard, 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.
- 16.18 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.

Amortisation period and amortisation method

- 16.19 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, under paragraph 12.9 or 15.5(b), to include an appropriate portion of that charge in the cost of assets such as inventories or property, plant and equipment.
- 16.20 Amortisation begins when the intangible asset 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 ceases when the asset ceases to be recorded. The entity shall choose 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.

Residual value

- 16.21 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.

Review of amortisation period and amortisation method

- 16.22 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 useful life of, pattern of consumption of the future economic benefits embodied in, or residual value of, an intangible asset has changed since the most recent annual reporting date. If such indicators are present, an 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 (prospectively) in accordance with Section 9 *Accounting Policies, Estimates and Errors*.

Ceasing to record an intangible asset

- 16.23 An entity shall cease recording an intangible asset, and consequently record a gain or loss in profit or loss, when:
- (a) it is sold or otherwise disposed of; or
 - (b) no future economic benefits are expected from its use or disposal.
- 16.24 In applying paragraph 16.23, an entity shall comply with the principles of the requirements in paragraphs 15.22(b)–15.23 for ceasing to record an item of property, plant and equipment.

Disclosures

- 16.25 An entity shall disclose the following for each class of intangible assets :
- (a) a description of the asset class (for example, software or licences);
 - (b) the measurement basis used;
 - (c) the carrying amount at the beginning and end of the reporting period;
 - (d) the line item(s) in the statement of profit or loss and other comprehensive income (if presented) the statement of profit or loss and the statement of comprehensive income (if presented), or the combined statement of income and retained earnings (if presented) in which any amortisation of intangible assets is included;
 - (e) increases or decreases resulting from revaluations under paragraphs 16.15 and 16.16 and from impairment losses recorded in other comprehensive income in accordance with Section 23;
 - (f) impairment losses recorded in profit or loss in accordance with Section 23; and
 - (g) amortisation.
- 16.26 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 (including the nature and amount of loans that are secured); and
 - (b) the amount of contractual commitments for the acquisition of intangible assets.
- 16.27 An entity shall disclose the aggregate amount of research and development expenditure recorded as an expense during the period.
- 16.28 If intangible assets are stated at revalued amounts, an entity shall disclose the following
- (a) the effective date of the revaluation; and

- (b) whether an independent valuer was involved.

Question 3 to Board members

In Agenda Paper 3.10 for this meeting staff asked Subcommittee members whether they agreed with the implication of draft para. 17.6 of the Tier 3 ED that, if a combining entity was donated a material asset without paying any consideration in return, and elected to initially measure that asset at its cost (nil) in accordance with draft para. 15.4(a), the donated asset would be included in the assets required to be measured at fair value when accounting for the entity combination. This is because measuring the asset at a cost of nil would be in-substance non-recognition of the asset. As noted in the staff analysis, draft para. 17.6 is consistent with the Board's proposal decided at its 6-7 June 2024 meeting that material assets and liabilities that do not have a carrying amount recognised in accordance with Australian Accounting Standards would be measured initially at their combination-date fair value (see [minutes](#)).

Feedback from Subcommittee:

Of the Subcommittee members that commented, one member agreed with the implication noted by staff. However, another member noted some errors in the cross-references in the staff analysis (per comments in Agenda Paper 3.10 for this meeting on page 39) and commented on an inconsistency between the staff analysis and the draft text for para. 17.5 – 17.6 of the ED. Therefore, they were unable to express an opinion on whether they agree with the staff's analysis. Nevertheless, they commented that if a donated asset initially measured at a nil cost would be required by para. 17.6 to be measured at fair value at the deemed combination date, this would prove onerous for preparers that need to determine what fair value was at an historical point in time (which might be a prior period, e.g. if the deemed combination date is the beginning of the first prior period for which restated comparative information is presented).

Staff analysis and recommendation:

Staff consider that an important issue to address in drafting how to apply the Board's decision at its 6-7 June 2024 meeting is whether 'Australian Accounting Standards' (for the purposes of its use in draft para. 17.6) encompass Tier 3 reporting requirements (or whether another term should be used: see below). This is important because, if it is concluded that they do, then a measurement of an asset at a cost of nil is undoubtedly "in accordance with Australian Accounting Standards". It also means that, for Tier 3 NFP entities, the requirement in AASB 3 *Business Combinations* to measure at fair value assets acquired in a business combination would be overridden by the specific measurement options of the Tier 3 Standard. Staff observe that the proposed amendments to AASB 1053 (para. 7(c)) and AASB 1057 (para. 21A and 21B) in Appendix C of this draft ED make explicit that the Tier 3 reporting requirements are part of Australian Accounting Standards. Conversely, staff also consider that, if 'Australian Accounting Standards' in currently drafted para. 17.6 did not encompass Tier 3 reporting requirements, the Board's decision to generally require using pre-combination book values to account for entity combinations would be nullified by para. 17.6, and Tier 3 NFP entities would need to measure all assets acquired and liabilities assumed at fair value (i.e. if an existing carrying amount recognised in accordance with Australian Accounting Standards pertains only to Tier 1/Tier 2 Australian Accounting Standards).

Staff note that referring to Tier 1 or Tier 2 reporting requirements instead of Australian Accounting Standards in currently drafted para. 17.6 would not resolve this issue, because the option to initially measure at cost (e.g. nil) donated non-financial assets is provided by the draft Tier 3 reporting requirements.

Staff share the Subcommittee member's concern about requiring fair value measurement of a donated asset (with a cost of nil) that a Tier 3 NFP entity elected to measure at cost in accordance with draft para. 15.4(a) or an equivalent paragraph for other non-financial assets than property, plant and equipment. Staff also consider there may be some anomalous outcomes based on current draft para 17.6 and have provided three scenarios to illustrate the issue, where all three entities were donated a parcel of land with a fair value of \$1 million:

- (a) recipient Entity A receives a parcel of land for free and elects to measure the land at cost, which is nil;
- (b) recipient Entity B receives a parcel of land for which it paid \$50,000 (its co-payment for the land); and

- (c) recipient Entity C receives a parcel of land for which it also paid \$50,000 and records it by measuring it at \$1 for record-keeping purposes under a special purpose financial reporting framework that includes application of a modified cash basis.

Staff note that application of paragraph 17.6 would result in Entity A having land without “an existing carrying amount recorded in accordance with Australian Accounting Standards” because having a carrying amount of nil is in-substance non-recognition. Therefore, it would need to be measured at fair value at the deemed combination date. In contrast, Entity B’s parcel of donated land has an existing carrying amount (\$50,000) recorded in accordance with Australian Accounting Standards, and therefore would not be measured at fair value as at the deemed combination date. And for Entity C’s parcel of land, although it has an existing carrying amount, that carrying amount was not determined in accordance with Australian Accounting Standards and accordingly the parcel would need to be measured at fair value as at the deemed combination date.

Staff note that, despite the cost of Entity B’s parcel of land differing greatly from that parcel’s fair value, under the Board’s measurement decisions for entity combinations (at its 6-7 June 2024 meeting) there is no reason to require that parcel to be measured at fair value. That is, the primary measurement principle is to measure assets and liabilities at their pre-combination book values for Tier 3 entities; fair value measurement is the exception to the rule, for assets and liabilities unrecognised or without the credibility of having been measured in accordance with a permitted treatment in Australian Accounting Standards.

Therefore, of the three scenarios in the example above, Entity A’s scenario is the only one in which the application of draft para. 17.6 would result in an outcome staff consider unduly onerous for Tier 3 NFP entities, particularly since, in that scenario, the entity has complied with the measurement requirements of (Tier 3) Australian Accounting Standards.

Staff identified two potential alternatives to the text of draft para. 17.6 aimed at overcoming the issue identified above:

- (a) limiting the number of assets and liabilities that would potentially be subject to the fair value measurement requirement by:
 - (i) requiring fair value measurement for any ‘major’ (rather than ‘material’) asset or liability without an existing carrying amount recorded in accordance with Australian Accounting Standards; and
 - (ii) clarifying that a major asset or liability is one that is essential to assessments of the entity’s capability to further its objectives and/or solvency; and
- (b) modify draft para. 17.6, or include supporting guidance, to state that para. 17.6 does not apply to donated non-financial assets carried at a cost of nil in accordance with the Tier 3 Standard’s option to do so.

Staff note that adopting Alternative (a) described above would not change the outcomes in any of the scenarios but should limit the number of occasions on which fair value assessments should be made, because the fair value measurement requirement would apply only to ‘major’ assets and liabilities meeting the criteria in draft para. 17.6. Advantages of Alternative (a) are that its adoption would avoid introducing further complexity to the text of draft para. 17.6 while being likely to reduce the pervasiveness of the concern described above for entities facing the circumstances of ‘Entity A’. In addition, there is a precedent in the draft Tier 3 ED for using ‘major’ as a criterion: consistent with AASB 1060 para. 188(a), draft para. 17.12 requires specified disclosures if “an entity is a party to a major entity combination after the end of its reporting period but before its financial statements are completed”. Disadvantages of Alternative (a) are that identifying ‘major’ assets and liabilities would require highly subjective assessments, including determining when assets and liabilities are ‘essential’ to assessments of the entity’s capability to further its objectives and/or solvency, and would require the development of supporting guidance. Another disadvantage of Alternative (a) is that, for consistency, it would limit the scope of the fair value requirement for liabilities, although the problem it is designed to solve does not affect the recognition and measurement of liabilities. Staff consider these disadvantages would be likely to outweigh the advantages of Alternative (a), and therefore do not recommend its adoption.

Staff’s recommended text for Alternative (b), if it were adopted by the Board, is to add the following as para. 17.7:

“If a combining entity was donated a non-financial asset before the entity combination without paying any consideration in return and elected to initially measure that asset at its cost (nil) in accordance with paragraph 12.8, 14.6, 15.4 or 16.4, the donated asset is excluded from the application of paragraph 17.6.”

This draft text does not mention whether the donated asset was ‘recorded’, and thereby should avoid creating any debate about whether an asset carried at a cost of nil is (in terms of draft para. 17.6) ‘recorded’. Staff note that Alternative (b) has the relative advantages over Alternative (a) of not requiring highly subjective assessments of whether particular assets or liabilities are ‘major’ and would not needlessly affect the application of draft para. 17.6 to liabilities. In addition, although Alternative (b) involves the addition of an extra paragraph to the draft text for Section 17 in this agenda paper, adopting Alternative (a) would require the addition of even more text. Staff did not identify any relative disadvantage of Alternative (b) compared with Alternative (a). Based on this assessment, staff prefer Alternative (b) and recommend adopting it in the Tier 3 ED.

Do Board members agree with the staff’s recommendation to adopt the Alternative (b) draft text to clarify that donated non-financial assets obtained without paying any consideration in return and initially measured at their cost (nil) are excluded from the application of paragraph 17.6?

If not, do Board members consider that the outcome of applying draft para. 17.6, without amendment, in all three scenarios illustrated above is appropriate (i.e. only Entity B’s parcel of donated land should not be subject to fair value measurement)? If so, the circumstances in which draft para. 17.6 would require an asset or a liability to be measured at fair value (instead of existing carrying amount) as at the deemed combination date would be when the asset or liability:

- (a) has no carrying amount (even if that is in accordance with a treatment required or permitted by Australian Accounting Standards); or**
- (b) has a carrying amount that was not determined in accordance with a treatment required or permitted by Australian Accounting Standards.**

Question 4 to Board members

In Agenda Paper 3.10 for this meeting, staff asked Subcommittee members whether they agreed with the staff’s suggestion in draft para. 17.1 of the Tier 3 ED to include combinations of operating units (as defined in draft para. 17.4) in the scope of the Entity Combination section. Staff suggested drafting that refers to combinations with ‘operating units’ in para. 17.1 to use NFP sector-neutral terminology that parallels ‘businesses’ that are not entities in AASB 3 *Business Combinations*. Staff observe that if entity combinations undertaken by Tier 3 NFP entities seldom involve operating units that are not entities, there would be a case for omitting them from the scope of the Tier 3 ED to achieve greater simplicity. However, staff suggested including ‘operating units’ in the scope of the Tier 3 ED to elicit stakeholder feedback on the frequency with which Tier 3 NFP entity combinations involve operating units that are not entities; and because it is easier to make a scope exclusion in drafting the final Standard, compared with broadening the scope of requirements in the final Standard from those exposed in the ED. In addition, including ‘operating units’ in the scope of the Entity Combinations section arguably would reduce the importance of identifying whether another party to a combination with the reporting entity should be regarded as an ‘entity’ or something less.

The Subcommittee members that commented expressed mixed views. One member considered that operating units would be uncommon for Tier 3 NFP entities and including them might add confusion; therefore, they preferred the reference to operating units to be omitted. However, another member agreed with the staff approach to include operating units within the ED but to elicit stakeholder feedback on its commonality for Tier 3 entities.

Staff remain of the view to include guidance on operating units in the Tier 3 ED to elicit stakeholder feedback on the frequency with which Tier 3 NFP entity combinations involve operating units that are not entities.

Do Board members agree with the staff recommendation to include guidance on operating units in the Tier 3 ED and include an SMC (drafted as SMC 20) seeking stakeholder feedback on the frequency with which Tier 3 NFP entity combinations involve operating units that are not entities?

If not, do Board members prefer excluding the reference to operating units from the scope of paras 17.1, 17.3 and 17.4 (which would involve omitting draft para. 17.4 entirely)?

Question 5 to Board members

In Agenda Paper 3.10 for this meeting, staff asked Subcommittee members whether they agreed with the staff's suggestion to allow an entity that continues to exist after an entity combination occurs to elect to present comparative information for the combined operations for the periods prior to the combination date in the primary financial statements or in the notes. As noted in Agenda Paper 3.10, the Board decided at its meeting on 6-7 June 2024 (see [minutes](#)) to propose that a new entity formed upon an entity combination may elect to present comparative information for the combined operations for the periods prior to the combination date in the primary financial statements or in the notes.

That is, a new reporting entity may elect to present comparative information for the combined operations of the entities forming part of the entity combination anywhere in the financial statements, for periods prior to the reporting entity's existence, as if the new entity always existed.

Staff consider that a logical consequence of that policy would appear to be that, if an existing reporting entity continues to exist after the entity combination occurs:

- the reporting entity may elect to present comparative information for the combined operations of the entities forming part of the entity combination for periods prior to that entity combination, as if the new group always existed; and
- that comparative information encompassing all entities included in the entity combination may be presented anywhere in the financial statements.

The subcommittee members that commented had mixed views. One member did not agree with allowing an entity that continued to exist after the combination to elect to present comparative information for the combined operations for prior periods. They consider that the purpose for allowing a new entity that formed upon the combination is to present users with relevant information compared with not presenting comparative information at all (since the entity did not exist in prior periods) and that this logic should not be extended to existing reporting entities. However, another member agreed with the staff's suggestion to extend that option to also be available for existing reporting entities.

Regarding the first Subcommittee member's concerns, staff note that:

- (a) if a continuing reporting entity elected not to present comparative information for the combined operations for periods prior to the entity combination, it would nonetheless provide comparative information encompassing the reporting entity identified as existing before the entity combination – i.e. it would provide information about the reporting entity that actually existed, rather than pro forma comparative information as if the combined entity existed in earlier period(s) presented (such pro forma comparative information might be considered more relevant for predicting the future financial position and future financial performance of the combined entity, which is why reporting entities might be provided an option to provide pro forma comparative information);
- (b) the Board did not decide to *require* for any Tier 3 entity combinations the presentation of comparative information for the combined operations of the entities forming part of the entity combination for periods prior to that entity combination, as if the new group always existed. The omission of such a requirement is consistent with the Board's decision not to require (fully) retrospective application of new accounting policies; and
- (c) adopting different policies for the boundary of the reporting entity to which comparative information relates, according to whether an entity combination creates a 'new' reporting entity or involves the continuation of an 'existing' reporting entity, could place stress on the distinction between those two categories of entity combination. The key sources for that distinction (New Zealand PBE IPSAS 40 *PBE Combinations* and the New Zealand Accounting Standards Board's Basis for Conclusions on PBE IPSAS 40) state that:

“The existence or absence of control determines whether the resulting entity is a new reporting entity or a continuing reporting entity. When none of the parties to the combination that existed prior to the combination gain control over the combining operations, the resulting entity is a new

reporting entity. When one of the parties to the combination that existed prior to the combination gains control of the other combining operations, the resulting entity is that continuing reporting entity.” (para. 18)

“The NZASB is of the view that the continuing reporting entity’s comparatives are useful to readers and that a requirement to present such comparatives would not be onerous because the information would have already been prepared. The NZASB has therefore required that the continuing reporting entity present comparative information The comparative information is not restated for the combining operations. ...” (para. BC24)

“The NZASB considered permitting pro-forma comparative information (as if the two combining operations had been one combined operation in the prior period) to be presented but was concerned that this would imply that the combining operations have always been combined. Because the NZASB wanted to avoid any doubt about when the combination occurred the Standard does not permit a new reporting entity to present comparatives. However, it does permit the combining operations’ prior period information to be provided in the notes” (para. BC25)

Staff note that, regardless of whether the reporting entity resulting from an entity combination is a ‘new’ reporting entity or a ‘continuing’ reporting entity, its composition changed as a result of the entity combination and including additional entities in comparative information for periods preceding the entity combination depicts a hypothetical scenario (in the interests of providing relevant information). Moreover, staff observe stakeholder feedback received that identifying whether control over particular entities arises from an entity combination often would be problematic for Australian smaller NFP private sector entities. Therefore, requiring a distinction between those two categories of entity combination would seem unlikely to be proportionate for Australian smaller NFP private sector entities.

Do Board members agree to provide an entity that continued to exist after the combination to elect to present comparative information for the combined operations for prior periods either on the face of the statement or in the notes?

If not, do Board members prefer that the ED proposes the election only for new reporting entities formed upon an entity combination (i.e. is silent for existing reporting entities)?

Note to Board members

The clean text of draft Section 17 is the text provided to the Subcommittee; manual mark ups show the staff’s recommended edits for further refinement of the draft text.

Section 17: Entity Combinations

Purpose and scope of this section

17.1 This Section provides the requirements for the recording, initial measurement and disclosure of combinations of entities with other entities or operating units (‘entity combinations’) for which either:

- (a) consolidated financial statements are prepared for the post-combination combined entity in accordance with paragraphs 8.15–8.27; or
- (b) only one entity exists after the combination and, consequently, the only items (assets, liabilities and items of equity) transferred to the reporting entity in the combination are its direct interests and direct obligations.

An ‘entity combination’ combines separate entities or operating units into one reporting entity. Operating units are defined in paragraph 17.4.

17.2 This Section does not apply to entity combinations of entities resulting in a group for which the parent entity elects (in accordance with paragraph 8.2) to present, as its only financial statements, separate financial statements that do not consolidate its subsidiaries. Such combinations are accounted for as:

- (a) acquisitions of investments in equity instruments within the scope of Section 10 *Financial Instruments* or Section 13 *Investments in Associates and Joint Arrangements*, as applicable; and
- (b) any assumptions of liabilities by the entity in the combination.

- 17.3 An entity shall determine whether a transaction or other event is an entity combination by applying paragraphs 17.1 and 17.4, which requires that the assets received and liabilities assumed constitute an entity or another operating unit. If an entity receives assets (~~with or without assuming liabilities~~) and the transaction or other event does not involve an entity combination, the reporting 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 paragraph 17.6, as of the deemed combination date, the combined existing carrying amounts of the assets, liabilities and items of equity of the entities subject to the combination become the carrying amounts of the assets, liabilities and items of equity of the reporting entity. The deemed combination date is the beginning of the reporting period during which the entity combination occurred. However, a reporting entity may elect to restate comparative information for one or more prior periods as if the entity combination occurred in a prior period, in which case the deemed combination date is the beginning of the first prior period for which restated comparative information is presented.
- 17.6 In applying paragraph 17.5, if a material asset or liability of an entity subject to the combination does not have an existing carrying amount recorded in accordance with Australian Accounting Standards, it shall initially be measured at its fair value as at the deemed combination date.
- 17.7 Any difference between the carrying amount of the consideration paid by an acquirer of the other combining entities and the carrying amount of the net assets recorded in the combination is recorded directly in equity. An entity combination does not give rise to the recording of goodwill.
- 17.8 If any 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 those 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 All transaction costs associated with an entity combination (eg legal, accounting and administrative costs) shall be recorded as an expense when incurred.

Subsequent measurement and accounting

- 17.10 After an entity combination is initially accounted for, the reporting entity shall measure and account for the combined assets, liabilities and items of equity ~~items~~ in accordance with other sections applicable for those items consistently with the reporting entity's accounting policies.

Disclosure

- 17.11 The reporting entity shall disclose, during the reporting period in which an entity combination occurs:
- (a) the names of the combining entities and a description of their operations; and
 - (b) the amounts recorded at the deemed combination date for each class of the combining entities' assets and liabilities, in aggregate for those combining entities.
- 17.12 If an entity is a party to a major entity combination after the end of its reporting period but before its financial statements are completed, it shall disclose:
- (a) the names of the combining entities and a description of their operations; and
 - (b) the combination date.

Section 18: Leases

Scope of this section

- 18.1 This section covers accounting for all leases other than measurement of property held by lessees or lessors that is accounted for as investment property (see Section 14 *Investment Property*).

Financial statements of lessees

Recording and measurement

- 18.2 A lessee shall record lease payments (excluding 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 user'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 For the purposes of paragraph 18.2, the costs to be recorded as an expense over the lease term shall be increased by any initial direct costs of the lessee (ie incremental costs directly attributable to negotiating and arranging a lease) and reduced by the benefit of any upfront lease incentive (eg a rental holiday period), with the effect that those costs/incentives are spread over the term of the lease.

Financial statements of lessors

Recording and measurement

- 18.4 A lessor shall present assets subject to leases in its statement of financial position according to the nature of the leased asset (eg leased building).
- 18.5 A lessor shall record lease income (excluding amounts for services such as insurance and maintenance) in profit or loss on a straight-line basis over the lease term, 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 contingent rent, renewal or purchase options and escalation clauses, subleases (if a lessee) and restrictions imposed by lease arrangements.
- 18.9 A lessee shall also disclose the total lease payments recorded as an expense for the period.
- 18.10 A lessor shall also disclose the total variable lease payments that do not depend on an index, or a rate, recorded as income for the period.
- 18.11 In addition to making the disclosures required by paragraphs 18.8 and 18.9, where a lessee obtains donated use of underlying leased assets (ie ~~it makes the lease requires no or nominal~~ lease payments, or ~~the lease~~ otherwise has significantly below-market terms and conditions, principally to enable the entity to further its not-for-profit objectives), it shall disclose information that helps users of financial statements to assess:
- (a) the entity's dependence on donations of the use of underlying leased assets; and
 - (b) the nature and terms of the leases, including:
 - (i) the lease payments;
 - (ii) the lease term; and
 - (iii) any amounts owing to the donor at the reporting date.
- 18.12 The disclosures in paragraph 18.11 shall be provided for each underlying leased asset that is individually material to assessing the aspects in paragraph 18.11(a) or (b). However, such disclosures shall be aggregated

for underlying leased assets of a similar nature. 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.

- 18.13 In addition, the requirements for disclosure about assets in accordance with the sections covering Property, Plant and Equipment and Investment Property at Cost, Intangible Assets, and Impairment of Assets apply to lessors for assets provided under leases.

Section 19: Provisions and ~~contingent liabilities~~ Contingencies

Recording provisions

- 19.1 A provision is a liability of uncertain timing or amount. For example, a provision would exist when an entity's lease of office premises requires the premises to be renovated at the end of the lease.
- 19.2 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 (ie more likely than not) 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.
- 19.3 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).
- 19.4 Regarding paragraph 19.2(a), a constructive obligation is a present obligation that is not legally binding (although it might become legally binding in the future) and 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 where, before the end of the reporting period, the entity disturbed the site and made a public announcement that, consistent with its practices in other jurisdictions, it will remediate the site.

- 19.5 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 19.10–19.13).

Possible future liabilities

- 19.6 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 (ie present obligations). 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.

Measurement of provisions

- 19.7 Provisions shall be measured at the entity's best estimate of the 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 its obligations under a provision by engaging a contractor to perform a task (such as cleaning up a site where it held a fundraising event immediately before the end of the reporting period), it would take current contractor rates into account in estimating the cost to settle the provision.

Reimbursements

- 19.8 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 of profit or loss and other comprehensive income, the entity may offset any reimbursement income against the expense relating to the provision.

Disclosures

- 19.9 For each class of provision, an entity shall disclose in the notes:
- (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 made 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

- 19.10 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 outside the entity's control (for example, a court case not yet settled, or a guarantee issued outside a contract with a customer); 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.
- 19.11 Contingent liabilities shall not be recorded in the statement of financial position, but information about them shall be disclosed in the notes (see paragraphs 19.12 and 19.13).

Disclosures

- 19.12 For each class of contingent liability at the end of the reporting period, an entity shall disclose in the notes:
- (a) a brief description of the nature of the contingent liability;
 - (b) a best estimate of the amount of the contingent liability (where this can be estimated);
 - (c) an indication of the uncertainties about the amount or timing of any outflow of assets (where this is known by the entity); and
 - (d) the possibility of any reimbursement.
- 19.13 For each guarantee or class of guarantee (as a subset of contingent liabilities) in force at the end of the reporting period, an entity shall disclose in the notes:
- (a) the nature of the guarantee;
 - (b) the maximum amount of any guarantees provided to others; and
 - (c) the likelihood of the entity being required to make payment under the guarantee.

Contingent assets

- 19.14 A contingent asset is a possible asset (eg, a disputed legal claim) that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of an uncertain future event outside 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 19.15). 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), the related asset is not a contingent asset and should be recorded as an asset in the statement of financial position.

Disclosures

- 19.15 If an inflow of economic benefits from a contingent asset is probable (more likely than not) at the end of the reporting period, an entity shall disclose in the notes:
- (a) a brief description of the nature of the contingent asset; and
 - (b) a best estimate of the amount of the contingent asset (where this can be estimated).

Firm commitments

- 19.16 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 of financial statements in assessing the entity's future funding requirements.
- 19.17 This Standard requires disclosure in the notes of information about the timing and estimated amount of any significant firm commitments (both operating and capital). Those requirements are set out in the topic sections to which they relate. For example, those sections include requirements to disclose information about the following types of firm commitments:
- (a) commitments to lease or rent assets;
 - (b) commitments to purchase property, plant and equipment or intangible assets; and
 - (c) commitments to provide loans or grants.

Prejudicial disclosures

- 19.18 In extremely rare cases, disclosures of some or all of the information required by paragraphs 19.9, 19.12, 19.13 and 19.15 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.

Section 20: Revenue

Scope of this Section

- 20.1 Revenue is income arising in the course of an entity's ordinary activities. Revenue includes:
- (a) recorded inflows of cash and other assets to the entity, other than:
 - (i) inflows from borrowings, sales of assets, or contributions of capital from owners; and
 - (ii) inflows that give rise to liabilities to act or perform in a particular way in the future, such as liabilities to transfer goods or render services;
 - (b) recorded reductions in liabilities to act or perform in a particular way in the future (see paragraph 20.9); and
 - (c) recorded increases in debtors (accounts receivable) resulting from transfers of goods, or the rendering of services, by the entity.
- 20.2 Examples of revenue are donations, grants, members' fees, funding or sales consideration earned through the provision of goods or services to beneficiaries or customers (including fundraising events).

Accounting for revenue

- 20.3 On initial recording of an asset cash or another asset provided to the entity (ie without the entity purchasing it from a supplier):

- (a) the entity shall record a deferred revenue obligation (liability) if the entity and that provider have a common understanding that, in response, the entity will perform in a particular manner resulting in the related expenditure, transfer or using up of:
 - (i) that asset; or
 - (ii) other assets of the entity with a similar value (see paragraph 20.5); or
 - (b) if a 'deferred revenue obligation' liability described in (a) does not exist, record revenue simultaneously with initially recording the asset. This occurs at the earlier of receiving the ~~cash/other~~ asset and obtaining control of a right to receive the ~~cash/other~~ asset.
- 20.4 The liability in paragraph 20.3(a) and the revenue in paragraph 20.3(b) shall be measured at the same amount as the amount recorded initially for the asset. That amount shall be measured in accordance with:
- (a) the measurement requirements in paragraph 20.5, for debtors; and
 - (b) the applicable section of this Standard, for all other assets.

Measurement of debtors

- 20.5 Amounts receivable in exchange for goods or services transferred to customers (debtors) shall, subject to paragraph 20.6, be measured initially and subsequently at fair value, estimated as the amount of consideration to which the entity expects to be entitled. That amount:
- (a) includes both:
 - (i) the fixed amount of consideration receivable; and
 - (ii) the most likely amount of any variable consideration receivable (eg amounts that might vary as a result of discounts or penalties), but only to the extent it is highly probable that the variable amount will become due when the uncertainty associated with it is subsequently resolved; and
 - (b) excludes amounts collectible on behalf of third parties (eg goods and services tax).
- 20.6 If the period between when goods or services are provided to a customer by the entity and when the customer's payment is required represents the implicit provision of a significant period of financing to the customer, the entity shall measure the amount receivable from the customer (debtor) at the present value of that payment. The present value shall be determined by discounting the payment using a market rate of interest for a similar debt instrument as determined at initial recording. The difference between the present value (initial measure of the debtor) and the amount payable by the debtor shall be recorded as interest income over the period of credit.

Deferred revenue obligations

- 20.7 For the purposes of paragraph 20.3(a), for a deferred revenue obligation to arise from a common understanding that the entity will perform in a particular manner, it is unnecessary for the obligation to be enforceable against the entity by legal or other means.
- 20.8 Examples of an entity's performance in a particular manner resulting in the expenditure, transfer or using up of either the asset received, or other assets, referred to in paragraph 20.3(a), are:
- (a) transferring specified goods or rendering specified services, either to the asset provider in return or to third party beneficiaries;
 - (b) performing a specified activity (including acquiring or constructing a specific asset eg constructing a building under the terms of a capital grant);
 - (c) incurring eligible expenditure for a specified purpose (eg acquiring a specified asset); and
 - (d) using the asset(s) for a specified period, either for specific programmes or activities, or for the entity's programmes and activities generally.
- 20.9 Judgement is required to determine when an entity satisfies its deferred revenue obligations that arose from receiving transferred assets and revenue is no longer deferred. Revenue shall be recorded in the manner that most faithfully represents the amount and pattern of the entity's using up of the assets received (or other assets with a similar value). Examples of the events and time patterns for identifying the satisfaction of deferred revenue obligations are:
- (a) when goods and services are transferred (identified by reference to the proportion of the total quantity, cost or value of the goods or services expected to be provided, or on a time basis);

- (b) when activities are performed;
- (c) when eligible expenditure is incurred; and
- (d) as time elapses over the specified period, reflected in a systematic allocation basis over that period.

Evidence of a common understanding

20.10 For the purposes of paragraph 20.3(a), evidence of a common understanding that the entity will transfer, expend or use up an asset it received, or other assets of similar value includes written communication, between the entity and the provider of the asset, or other written/oral representations made to customers, regarding:

- (a) the purpose for which the asset, or other assets of the entity, is to be expended, transferred or used up; or
- (b) the period over which the transferred asset is to be used.

If a deferred revenue obligation is enforceable, evidence of the aspects in (a) or (b) would normally exist. However, enforceability of a deferred revenue obligation is not required to satisfy the evidence requirement of this paragraph.

20.11 For the purposes of paragraph 20.7:

- (a) in sales of goods or services, the asset provided to the entity is the sales consideration, and the communication between the customer and the entity can be in writing or email, or other representations (such as advertising) made to the customer regarding the goods or services that will be provided in return for the sales consideration;
- (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 is sufficient to demonstrate that there is common understanding between both parties concerning the expected use of the funds; and
- (c) an example of communication is a specific current statement of the entity regarding how it would use assets provided to it, which creates a valid expectation of asset providers that it would discharge its responsibilities to use the assets in the promised manner.

Satisfying deferred revenue obligations

20.12 When paragraph 20.3(a) applies on initial recording of an asset, 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 (either on the occurrence of a commonly understood event, such as a transfer of a specified good or making a specified expenditure, or progressively over a period, such as where specified services are rendered by the entity).

20.13 An expectation to use assets received to support the general operating costs of the entity over an unspecified period of time is not identified as giving rise to deferred revenue. In these circumstances, revenue is recorded simultaneously with initially recording the asset.

20.14 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 a deferred revenue obligation of the entity exists.

Principal versus agent considerations

20.15 When another party is involved in satisfying the requirements of 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 the other party (that is, the entity is an agent).

20.16 An entity is a principal 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 to the beneficiary or customer include, but are not limited to, the following:

- (a) the entity has the primary responsibility for providing the goods or services 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 goods or services; and

- (c) the entity has inventory risk in relation to the specified good or service transferred to a beneficiary or customer (eg the beneficiary or customer has a right of return).
- 20.17 An example of the entity as principal is when the entity organises a conference for a group of not for profit entities, receives the conference fees, and is responsible for all the conference content and delivery even though the entity engages external parties to deliver various sessions under its supervision.
- 20.18 In applying paragraph 20.5:
- (a) an entity that is a principal shall record revenue in the gross amount of consideration to which the entity expects to be entitled in exchange for providing specified goods or services to beneficiaries or customers.
- (b) an entity that is an agent shall record 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 agent might be the net amount of consideration that the entity retains after paying another party the consideration for providing specified goods or services to beneficiaries or customers.
- 20.19 Regardless of whether an entity is a principal or an agent, its debtors exclude amounts collectible on behalf of third parties (eg goods and services tax).

Pledges

- 20.20 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.

Volunteer services

- 20.21 An entity may, as an accounting policy choice, elect to record volunteer services received, or a class of volunteer services received, if the fair value of those services can be measured reliably. If an entity elects to record volunteer services received, it shall measure those services at their fair value.
- 20.23 The entries for voluntarily recording the fair value of volunteer services shall include that amount in:
- (a) revenue or (in rare circumstances, eg when the controlling entity donates legal services to the entity) contributions by owners; and
- (b) expenses for the using up of those services as they are received.
- 20.24 Some volunteer services, such as professional services, might have readily observable market prices. In such circumstances, obtaining a reliable measure of their fair value would be relatively straightforward.

Unit of account for deferred revenue obligations

- 20.25 The unit of account for deferred revenue obligations is each separate documented commonly understood obligation identified. There may be multiple documented obligations attached to an inflow of assets, each of which shall be accounted for separately when reducing the deferred revenue liability balance and recording revenue. However, if one or more deferred revenue obligation arise and are fully satisfied in the same reporting period, there is no need to disaggregate the deferred revenue obligations; the entire amount of the asset(s) received is recorded as revenue in that period.
- 20.26 Judgement will be required to determine an appropriate revenue recording approach for determining the point in time at which, or the period over which, the documented commonly understood obligation is satisfied. The following are examples of documented commonly understood obligations and the different revenue recording approaches that may be used, consistent with the requirements of paragraph 23.6:
- (a) Deliver specified goods or services to beneficiaries (eg to deliver 1,000 school lunches) – revenue could be recorded as the specified goods or services are delivered.
- (b) Purchase an asset (eg a vehicle) as stipulated under a funding agreement – revenue could be recorded when the asset is purchased.
- (c) Construct an asset (eg building) – revenue could be recorded over the construction period (eg on a stage of completion basis).
- (d) Support general operating costs (over a specified time period, eg, three years) – revenue could be recorded on a straight-line basis over the three-year period.

- (e) Host an event or deliver a specific programme or activity – revenue could be recorded on a stage of completion basis as the costs to host the event or deliver the specified programme or activity are incurred.

Disclosures

20.27 An entity's total revenue for the period shall be disaggregated into categories that help users of its financial statements assess the nature, amount, timing and uncertainty of each dissimilar type of revenue recorded. At a minimum, the amounts recorded for the following categories shall be disclosed separately if they were received by the entity:

- (a) donations, bequests and other revenue from general fundraising activities, apart from those disclosed under (c) below;
- (b) grants stipulated to be used for the provision of goods or services consistent with the entity's mission, without specification of which goods or services are to be provided;
- (c) grants and donations specified to be used for the construction or purchase of assets;
- (d) revenue from providing specified goods or services sold to customers (including governments as purchasers of those goods or services);
- (e) membership fees and subscriptions;
- (f) interest, dividends and other investment revenue, disaggregated where required by para. 10.30(a) of Section 10 *Financial Instruments*; and
- (g) other 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.

20.28 The categories may be described using terminology appropriate for the entity and need not use the titles used in paragraph 20.27, provided that the separate categories are still disclosed.

20.29 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 then be used consistently in future periods so that the information reported is comparable over time.

Volunteer services

20.30 In relation to any volunteer services (such as free professional services) provided to the entity during the reporting period, the entity shall disclose:

- (a) a description of those services;
- (b) any amount recorded as revenue under the option to do so in paragraph 20.18; and
- (c) any other information necessary to satisfy the disclosure objective in paragraph 20.27.

20.31 The entity shall disclose sufficient descriptive information about volunteer services 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 impending significant changes to the nature and amount of volunteer services. The entity shall consider the level of detail necessary to satisfy this disclosure objective, and shall aggregate or disaggregate disclosures 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. Meeting this disclosure objective does not require an entity to quantify the value of volunteer services received.

Deferred revenue obligations

20.32 An entity shall disclose the amount recorded as liabilities in respect of deferred revenue obligations at the reporting date, disaggregated according to:

- (a) its current and non-current portions; and
- (b) the nature of the transfers, expenditures or using up of assets that is expected to occur in settling the obligations (eg transfers of inventories, expenditures to be incurred in rendering services, and expenditures to construct or purchase assets).

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 topic 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 (that is, as agent of another entity, using resources controlled by that entity) are not expenses of the entity (see paragraphs 20.15–20.19).

Section 22: Borrowing Costs

- 22.1 Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. An entity shall record all borrowing costs as an expense in profit or loss in the period in which they accrue.

Question 6 to Board members

At the March 2024 Board meeting, the Board decided to consider whether to develop guidance on cash-generating units (CGU) in relation to assessing the impairment of assets only after the Board has considered the Tier 3 requirements for business combination and goodwill (refer to March 2024 meeting [minutes](#)). As its June 2024 Board meeting, the Board decided that Tier 3 entities should measure the asset and liabilities of the combined entity at their pre-combination book values for all combinations. Material assets and liabilities that do not have a carrying amount recognised in accordance with Australian Accounting Standard would be measured initially at their combination-date fair value. Any difference between the consideration paid and the net assets recognised in the combination is recognised directly in equity (refer to June 2024 meeting [minutes](#)). Staff have now included the draft Section 17 *Entity Combinations* reflecting the Board’s decision.

The draft guidance on recording and measuring an impairment for a CGU (in paragraphs 23.7 and 23.12 – 23.14, **shaded in grey**) was included in the work-in-progress draft of the Tier 3 ED (Agenda Paper 4.3) considered by the Board at its March 2024 meeting to illustrate the text that would be included if the Board decided to provide such guidance (however, staff recommended not to include such guidance in the ED). Staff remain of the view that including guidance on impairment of CGUs adds complexity for smaller NFP private sector entities that are unlikely to refer to such guidance commonly. In addition, staff note that the Board’s decision at its June 2024 meeting not to require or permit the recognition of goodwill in Tier 3 entity combinations removes a possible reason for providing guidance on impairment of CGUs (that reason was that goodwill can only be assessed for impairment as part of one or more CGUs). As such, staff recommend not to include guidance on impairment of CGUs within the Tier 3 ED and therefore, deleting paragraphs 23.7 and 23.12 – 23.14 shaded in grey.

Do Board members agree with the staff recommendation not to include guidance on the impairment of CGUs within the Tier 3 ED?

If not, what do Board members suggest?

Section 23: Impairment of Assets

Objective and Scope

- 23.1 An impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount. This may occur for example if the asset becomes obsolete due to technological change or the asset is damaged.
- 23.2 This section shall be applied in accounting for the impairment of all assets other than the following, for which other sections of this Standard establish impairment requirements:
- (a) financial assets within the scope of Section 10: *Financial Instruments*, which establishes impairment requirements for those assets; and

- (b) non-financial assets regularly revalued to fair value in accordance with paragraph 15.11 or paragraph 16.15.

Assessing possibility of impairment of non-financial assets

23.3 At each reporting date, an entity shall assess the possibility that any non-financial assets (such as inventories and property, plant and equipment) are impaired when, and only when:

- (a) they have been damaged physically or are perishable items that spoiled or became 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 sell or provide goods or services might have been affected adversely as a result.

If any of the events in (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 (which is measured in accordance with paragraphs 23.4 and 23.5 (if inventory) or paragraphs 23.6–23.10 (for assets other than inventory)). If such an excess exists, the asset's carrying amount shall be reduced to its recoverable amount and the reduction is recorded as an impairment loss in accordance with paragraph 23.11.

Measuring recoverable amount

Inventories

23.4 Subject to paragraph 23.5, the recoverable amount of an item of inventory (or group of similar items of inventory) is the selling price of the item or group less the costs to complete and sell it.

23.5 The recoverable amount of inventories held for distribution is their cost less their loss of service potential. The loss of service potential shall be measured by reference to the more easily determined of the cost or replacement cost of those inventories held that no longer are useful for distribution, based on the judgement of the entity's management. Examples of inventories held that no longer are useful for distribution are items that are damaged or outdated.

Other non-financial assets

23.6 The recoverable amount of a non-financial asset other than inventory is the higher of its fair value less costs to sell and its value in use. There is a rebuttable presumption that fair value less costs to sell is expected to be the most appropriate measure of such a non-financial asset's recoverable amount. Paragraphs 23.7–23.10 apply to non-financial assets other than inventories.

23.7 For some assets, it might be impossible to estimate their recoverable amount as an individual asset because their value in use cannot be measured separately from the value in use of other assets (ie the asset does not generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets) and it is necessary to consider their value in use when measuring the asset's recoverable amount (because it cannot be estimated to be close to the asset's fair value less costs to sell, and might exceed that amount). In such cases, recoverable amount is determined for the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (the asset's cash-generating unit). References in paragraphs 23.8–23.10 to an asset should be read as references also to an asset's cash-generating unit.

23.8 It is not always necessary to determine both an asset's fair value less costs to sell and its value in use if an indicator of impairment in paragraph 23.3 exists. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

Fair value less costs to sell

23.9 Section 11 *Fair Value Measurement* provides guidance on fair value measurement.

Value in use

23.10 Value in use is the present value of the future cash flows expected to be derived from an asset. This 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.

To estimate the cash flows expected from continuing use of the asset, the entity may elect to use any recent financial budgets or forecasts, if available.

Recording impairment losses

- 23.11 An entity shall record an impairment loss immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with the revaluation model in Section 15: Property, Plant and Equipment or Section 16: *Intangible Assets*. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with paragraph 15.13.

Recording and measuring an impairment loss for a cash-generating unit

- 23.12 An impairment loss shall be recorded for a cash-generating unit if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit in the following order:

- (a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- (b) then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the cash-generating unit.

- 23.13 However, an entity shall not reduce the carrying amount of any asset in the cash-generating unit below the highest of:

- (a) its fair value less costs to sell (if determinable);
- (b) its value in use (if determinable); and
- (c) zero.

- 23.14 Any excess amount of the impairment loss that cannot be allocated to an asset because of the restriction in paragraph 23.13 shall be allocated to the other assets of the unit pro rata on the basis of the carrying amount of those other assets.

Additional requirements for impairment of goodwill

- ~~23.15 Goodwill, by itself, cannot be sold. Nor does it generate cash flows to an entity that are independent of the cash flows of other assets. Consequently, the fair value of goodwill cannot be measured directly; it must be derived from measurement of the fair value of the cash-generating unit(s) of which the goodwill is a part.~~

- ~~23.16 For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.~~

- ~~23.17 Part of the recoverable amount of a cash-generating unit is attributable to the non-controlling interest in goodwill. For the purpose of impairment testing a non-wholly owned cash-generating unit with goodwill, the carrying amount of that unit is notionally adjusted, before being compared with its recoverable amount, by grossing up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This notionally adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.~~

Disclosures

- 23.18 For each class of assets indicated in paragraph 23.19, an entity shall, subject to paragraph 23.20, disclose the amount of impairment losses recorded in profit or loss during the period and the line item(s) in the statement of comprehensive income (and in the income statement, if presented) in which those impairment losses are included.

- 23.19 An entity shall disclose the information required by paragraph 23.18 for each of the following classes of asset:
- (a) property, plant and equipment (including investment property accounted for by using the cost method);
 - (b) goodwill;

- (c) intangible assets ~~other than goodwill~~;
- (d) investments in associates; and
- (e) investments in jointly ~~controlled entities~~ ventures.

23.20 For non-financial assets other than inventories, impairment losses recorded in profit or loss may be disclosed jointly (in a combined total) with depreciation/amortisation expense.

Note to Board members

In Agenda Paper 3.6 for this meeting, staff asked Subcommittee members whether they:

- (a) agree with the drafting of paragraph 24.8 of the Tier 3 ED dealing with the likelihood in the measurement of employee benefits to only reference the consideration of likelihood in relation to long service leave, and in estimating the amount of long service leave payable:
 - (i) an entity shall take into account the likelihood that any long service leave obligations unvested at the end of the reporting period will vest in a future period; and
 - (ii) an entity is not required to estimate the probability weighted expected value of its long service leave obligations (e.g. a ‘most likely outcome’ approach may be used).

Staff recommend the drafting per paragraph 24.8 because the Board decided to require an entity to consider the likelihood that an outflow would be required to settle the obligation for employee benefits (see paragraph 5.196). As such, staff consider it unnecessary to assess the likelihood of annual leave obligations (and similarly for other employee benefits such as wages and superannuation contributions, except for unvested long service leave) since an outflow will always be required for these obligations. In addition, the Board decided that entities would not be required to recognise provisions for non-vesting accumulating employee benefits (e.g sick leave) at its November 2023 Board meeting. As such, staff think the likelihood that employee benefits will become due and payable would need to be considered only in respect of estimating long-service leave provisions. Draft para. 24.8 refers to the likelihood of employee benefits vesting, rather than the likelihood of leave being taken in the future. If leave entitlements vest, it does not matter whether the leave is ‘taken’ by the employee while still employed, because it will be paid out upon the employee’s cessation of employment. Thus, referring to vesting avoids any uncertainty about whether the ‘taking’ of leave must occur during the period of employment.

Feedback from Subcommittee: The Subcommittee members who commented agreed with the drafting of paragraph 24.8.

- (b) agree with the description of ‘vesting’ benefits in draft paragraph 24.4 of the ED as follows:

“An entity’s obligation for (ie employee’s right to) accumulating employee benefits is a vesting benefit, if some past or future time, the employee has (or will) become entitled to a cash payment of the accumulated entitlement upon leaving employment with the entity.”

Staff recommended drafting is based on the requirements that an entity records a liability for non-vesting accumulating employee benefit obligations only if, and to the extent that, the leave has been taken by an employee and has not been paid by the entity at the end of the reporting period as per the Board’s decision at its November 2023 Board meeting.

Feedback from Subcommittee: Most members agreed with the suggested drafting above. However, one member considered the terminologies quite difficult to understand (particularly the concepts of “accumulating future compensated benefits” and “vesting” vs “non-vesting”, including for users of Tier 3 financial statements, and queried whether other terminologies could be used instead.

Staff comments: Staff have amended the drafting in paragraphs 24.3 – 24.6 (shown as marked-up) in response to the Subcommittee member’s comment by replacing “accumulating employee benefits” with “leave”. This reduces the jargon, and seems sufficiently robust because “payments in lieu of leave” are referred to in the first sentence of this subsection (in para. 24.3) – thus avoiding the risk that only the leave expected to be taken during employment would be considered.

However, while acknowledging that “vesting” and “non-vesting” are different concepts to understand, staff suggest not to replace them. The Board’s decision at its November 2023 meeting [in sub-para.

(n) of the [minutes](#)] “not to require entities to recognise provisions for non-vesting accumulating employee benefits, unless the amounts are due and payable”:

- leverages “vesting” and “non-vesting” having a legal meaning; and
- implicitly makes an important distinction between “vesting” and “vested” benefits, without which there would be a risk that long-service leave benefits not yet vested would be excluded from recognition (instead of being subject to a “likelihood of vesting” assessment (probability-based or otherwise) – reflected in draft para. 24.8). The meaning and use of “vesting” in this draft are consistent with the Tier 2 requirements in para. 15 of AASB 119 *Employee Benefits*.

Staff considered whether to use different terminology, such as “conditional” and “unconditional”. However, the dichotomy those terms refer to parallels “vested” and “unvested” and would not, without potentially lengthy explanation, capture the nuance of “vesting” benefits that have yet to vest. Also, changing the terminology may have unintended consequences.

Staff note other Subcommittee members did not suggest that the terminology is difficult to understand. However, as mentioned above, staff drafted simpler language instead of “accumulated future compensated benefits” to improve succinctness and understandability.

- (c) Have any comments about the draft illustrative examples of estimating employee benefit expenses and related on-costs drafted in Agenda Paper 3.10, now included as a non-mandatory illustrative example in this Paper per the Board decision at its November 2023 meeting not to develop guidance on employee on cost., except for an illustrative example to specifically mention on-cost when calculating employee benefit provisions. The draft illustrative example attempts to illustrate the relationships between various costs, including employee costs and other related costs often termed ‘on-costs’, without providing authoritative guidance (e.g. without providing either an explicit or implicit definition of on-costs). Because the draft example does not define ‘on-costs’, it illustrates how various employee benefits and related costs might be calculated and leaves it for the reader to assess which costs they consider to be ‘on-costs’.

Feedback from Subcommittee: The Subcommittee members who commented agree with the inclusion of the draft non-mandatory illustrative example. However, one member considered the illustrative example presumes no current employees have qualified for vested long service leave entitlements and suggested changes to the wording as follows:

"based on an estimated probability of: 70% that current employees yet to qualify for vested LSL benefits will qualify; and 100% for those current employees that have qualified".

The suggested changes would: (a) reflect that at any one point in time some current employees have yet to qualify for vested LSL benefits while others have; and (b) offer guidance to preparers to use 100% probability when current employees have qualified for vested LSL benefits.

Staff comment: Staff agree with the suggested changes and have reflected them as per marked up in the illustrative example accordingly.

Section 24: Employee Benefits

Scope of this section

- 24.1 Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees, including directors and management. This section does not apply to the recording, measurement and disclosure of defined benefit superannuation obligations incurred by an entity (which this Standard requires to be accounted for in accordance with AASB 119 *Employee Benefits*). Employee benefits include:
- (a) wages and salaries (including performance-related bonuses) and social security contributions;
 - (b) compensated absences (such as annual leave, sick leave and long-service leave);
 - (c) payments for post-employment benefits, such as payments to defined contribution superannuation plans (under these plans, the entity’s obligations are limited to a stipulated amount, eg percentage of salary); 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

- 24.2 An entity shall record the cost of all employee benefits to which its employees became entitled under legislation or an enforceable agreement as a result of services rendered to the entity during the reporting period as follows:
- (a) as a liability ('provision'), after deducting amounts of employee benefits paid either directly to the employees or to a third party on their behalf (eg as a tax instalment or a contribution to an employee benefit fund). 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 a prepayment (asset) to the extent that the prepayment will lead to a reduction in future payments or a cash refund; and
- (b) as an expense, except to the extent that another section of this Standard requires the cost to be recorded as part of the cost of acquiring or constructing an asset, such as inventory or an item of property, plant and equipment.

Entitlements to accumulating ~~future compensated absences~~ leave

- 24.3 Subject to paragraph 24.4, an entity records a provision for employee entitlements to future ~~compensated absences (whether entitlements to leave, or employee payments in lieu of leave)~~ accumulated as at the end of the reporting period as a result of employee services received until that date. Entitlements to accumulating ~~future compensated absences~~ leave include annual leave, sick leave and long-service leave entitlements.
- 24.4 In applying paragraphs 24.2 and 24.3, an entity records a ~~liability provision~~ for non-vesting ~~accumulating employee benefit obligations~~ leave only if, and to the extent that, the leave has been taken by an employee and has not been paid by the entity (ie is due and payable) at the end of the reporting period. An entity's obligation for (ie employee's right to) ~~accumulating employee benefits~~ leave is a vesting benefit if, at some past or future time, the employee has (or will) become entitled to a cash payment of the accumulated entitlement upon leaving employment with the entity.
- 24.5 Common examples of non-vesting ~~accumulating employee benefits~~ leave entitlements are sick leave and personal leave; if the accumulated balance of that leave may only be taken as a paid absence during employment with the entity, it is non-vesting. Many of an entity's obligations for ~~accumulating employee benefits~~ leave will be vesting (ie either at the end of the reporting period or at a specified future date (upon expiry of a vesting period), the employee will be entitled to a cash payment of the accumulated entitlement if they ~~leave employment with~~ depart the entity). Examples of vesting ~~employee benefits~~ leave entitlements are annual leave and long-service leave.
- 24.6 An entity shall not record a provision for non-accumulating ~~compensated absences~~ leave (eg overtime leave in lieu that does not carry forward beyond the end of the reporting period). The cost of non-accumulating ~~compensated absences~~ leave is recorded when the ~~absences occur~~ leave is taken.

Measurement of employee benefits

- 24.7 An entity shall measure the provision for employee benefits payable to its employees, and related employee benefits expense, at the undiscounted amount of employee benefits expected to be paid. The employee benefits expense for the reporting period comprises the cost of employee services received during the reporting period and remeasurement of the opening balance of the provision during the reporting period (eg due to changes in wage and salary rates affecting the amount of accrued leave entitlements).
- 24.8 In estimating a provision for long-service leave, an entity shall take into account the likelihood that any long-service leave unvested at the end of the reporting period will vest in a future period. This does not require the entity to estimate the probability-weighted expected value of its long-service leave obligations (eg a 'most likely outcome' approach may be used instead).

Disclosures

~~Disclosures about defined contribution plans~~

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

Section 25: Income Taxes

- 25.1 If the entity pays income tax, it shall record income tax expense for the period for the income tax payable for the period. That amount shall, in descending order, be based on the entity's tax assessment for the period (if received by the date the financial statements are authorised for issue), its tax return for the period (if completed by the date the financial statements are authorised for issue) or an estimate of the amounts to be included in that tax return. The entity's recorded liability for income tax at the end of the reporting period shall be measured as the sum of the estimated income tax payable for the period and any income tax assessed in respect of a prior period (or periods) and unpaid at the end of the reporting period.
- 25.2 The entity's income tax expense recorded for the period shall be presented as a line item in the statement of profit or loss and other comprehensive income. The entity's liability for income tax recorded as at the end of the reporting period shall be presented as a line item in the statement of financial position.

Section 26: Foreign Currency Translation

- 26.1 All amounts shall be presented in Australian dollars. If the entity has transactions or balances that are not denominated in Australian dollars, it shall translate their amounts to Australian dollars as follows:
- (a) transaction are to be translated using the exchange rate on the date the revenue, expense or cash flow occurs; and
 - (b) monetary asset and liability balances are to be translated using the exchange rate at balance date.

Section 27: Events Occurring After the Reporting Period

- 27.1 Events occurring after the reporting period are events, favourable and unfavourable, that occur between the end of the reporting period (eg financial year) and the date when the financial statements are authorised for issue by the entity's management.
- 27.2 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.
 - (b) the receipt of information after the end of the reporting period indicating that an asset was impaired or damaged at that date. For example:
 - (i) the bankruptcy of a debtor occurring after the end of the reporting period usually confirms that a loss already existed at that date on a receivable account, and that the entity needs to adjust the carrying amount of the receivable account; 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.
 - (c) the discovery of fraud or errors showing that the financial statements are incorrect.
- 27.3 An entity shall not adjust the amounts recorded but instead, provide disclosures in accordance with paragraph 27.4 in its financial statements to reflect events after the end of the reporting period indicating conditions that arose after that date. The following are examples of such events:
- (a) the entity's management decides, after the end of the reporting period, to make further grants to the community;
 - (b) 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 some amounts borrowed by the entity.

Disclosures

- 27.4 Where material events occur after the end of the reporting period and indicate conditions that arose after that date (see paragraph 27.3), the entity shall disclose the following information in the notes for each-material category of such events:
- (a) the nature of the event;
 - (b) an estimate of its financial effect, or a statement that such an estimate cannot be made; and
 - (c) the effect, if any, on the entity's ability to continue operating.
- The disclosures shall reflect information that becomes known after the end of the reporting period but before the financial statements are authorised for issue.
- 27.5 An entity is not required to disclose comparative information about events occurring after the end of the previous reporting period.

Section 28: Related Party Disclosures

Scope of this section

- 28.1 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 related party relationships and transactions and outstanding balances with related parties (eg without a related party relationship, transactions might not have been undertaken on terms and conditions that differed from those prevailing in arm's length transactions).
- 28.2 In general terms, a person or entity related to the reporting entity ('related party') is related by virtue of a relationship of significant (or greater) influence, being a member of key management personnel or a close family member of a person qualifying as a related party. A 'related party' is defined in the Appendix to this section; that definition applies to all assessments of when a related party of the reporting entity exists.

Disclosures

Disclosure of controlling party relationships

- 28.3 Relationships between the reporting entity and any entities identified as its subsidiaries shall be disclosed regardless of whether:
- (a) related party transactions occurred during the period; and
 - (b) consolidated financial statements were prepared for the reporting entity and its subsidiaries.
- 28.4 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.
- 28.5 In considering each possible related party relationship, an entity shall assess the substance of the relationship and not merely the legal form.

~~Disclosure of key management personnel compensation~~

- ~~28.6 An entity shall disclose the total amount of compensation paid, payable or provided to key management personnel for their services provided to the entity during the period.~~
- ~~28.7 If an entity receives key management personnel services from another entity (the 'management entity'), the entity is not required to disclose the amount of compensation paid or payable by the management entity to those personnel. However, the amounts incurred by the entity for the provision of key management personnel services by a separate management entity shall be disclosed.~~

Disclosure of related party transactions

- 28.6 A related party transaction is a transfer of resources (whether cash, goods or 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.
- 28.7 Examples of common related party transactions include, but are not limited to:
- (a) transactions between the entity and its principal owner(s);
 - (b) transactions between the entity and another entity when both entities are under the common control of a single entity or person; and
 - (c) transactions in which an entity or person that controls the reporting entity incurs expenses directly that otherwise would have been borne by the reporting entity.
- 28.8 If an entity has related party transactions, it shall, subject to the exemption in paragraph 28.10, 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 effect of the relationship on the financial statements.
- 28.9 At a minimum, the disclosures made in accordance with paragraph 28.8(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 ~~recognised~~ recorded during the period in respect of bad or doubtful debts due from related parties.
- ~~Those disclosure requirements are in addition to the requirements in paragraph 28.6 to disclose key management personnel compensation.~~
- 28.10 The disclosures in paragraphs 28.8 and 28.9 need not be made for 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.
- 28.11 An entity shall make the disclosures required by paragraphs 28.8 and 28.9 separately for each of the following four 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 (in the aggregate); and~~
 - (d) any other related parties having a notable relationship (as defined in paragraph 8.29 of Section 8 *Consolidated and Separate Financial Statements*) with the reporting entity not categorised under (a) – (c).
- If an entity has made some of, or all, these disclosures about notable relationships for the same reporting period in accordance with paragraph 8.32, there is no need to repeat them in complying with this paragraph.
- 28.12 The following are examples of transactions that shall, subject to the exemption in paragraph 28.10, be disclosed if they are with a related party:
- (a) purchases, sales or transfers of:
 - (i) goods (finished or unfinished); and
 - (ii) property and other assets;
 - (b) rendering or receiving services;
 - (c) lease payments;
 - (d) transfers under finance arrangements (including loans and equity contributions in cash or 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 another party.

- 28.13 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.
- 28.14 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.

Note to Board members

In Agenda Paper 3.11 for this meeting, staff presented the drafting of Section 29 and provided the following noteworthy issues for Subcommittee member's attention relating to:

- not including an 'impracticable' exemption from restatements and related disclosures on first-time adoption, consistent with the Board's decision to adopt the principles of AASB 1 for first-time adoption. As noted in Agenda Paper 3.3 for this meeting, staff are seeking the Board's decision to include an impracticable exemption in Section 9 (per **Question 2** in Agenda Paper 3.3). This represents a change of staff view since the Subcommittee draft, not a relocation from Section 29 to Section 9. Staff are also recommending a consequential amendment of draft Section 29 to include a general impracticability exemption from the disclosures of that section for first-time adopters of the Tier 3 Standard (per **Question 4** in Agenda Paper 3.3).
- staff are seeking the Board to confirm that first-time adopters of the Tier 3 reporting requirements that select and apply the 'AASB 1 approach' for first-time application of the Tier 3 reporting requirements would be required to apply a fully retrospective approach except for the exemptions specified in para. 29.10 and 29.11 as drafted in this paper below (per **Question 5** in Agenda Paper 3.3)

Feedback from Subcommittee: Subcommittee members did not object to the drafting of Section 29 as reflected in the clean text of the draft section below in this paper, except for one Subcommittee member's concerns about including 'encouraged' disclosures (the subject of Question 7 to Board members below).

Since preparing the draft version of Section 29 for the Subcommittee's consideration, staff conducted a review/revision of that draft and made further editorial changes to the following:

- (a) refinements or general clarifications presented as marked-up changes
- (b) including further simplification/restructuring:
 - (i) combining para. 29.1 and 29.5 to remove duplication;
 - (ii) deleting the last sentence of para. 29.2 for consistency with the convention not to include signposting of general requirements in other sections.; and
 - (iii) condensing para. 29.6 (renumbered as para. 29.5) and using less formal expression therein and omitting the last sentence on further reflection because an entity's ability to present comparative information for more than one prior period is not specifically relevant to first-time adoption of the Tier 3 Standard.;
- (c) adding to the stem of draft para. 29.1 a clarification that entities that previously applied the Tier 3 Standard would apply Section 29 (subject to its option in para. 29.3 to apply Section 9) if their most recent previous financial statements did not comply with the Standard (e.g. if they did not contain an explicit and unreserved statement that they comply fully with this Standard). This aligns with para. 20B of the draft amendments to AASB 1053 in this file;
- (d) replacing 'particular' with "some or all" in draft para. 29.4 to avoid implying the ED refers to particular but unidentified existing assets and liabilities.
- (e) adding to the stem of draft para. 29.6 (as renumbered) a clarification that the date of transition is unaffected by the option to continue applying Tier 1 or Tier 2 reporting requirement (i.e. whether to continue applying Tier 1/Tier 2 requirements to existing balances) has no effect on the date of transition. The intention was to mirror para. 35.6 of the IFRS for SMEs ED, which requires the date of transition to be the earliest period for which the entity provides full comparative information. This is the same as the definition of "date of transition" in Appendix A of AASB 1. The guiding principle does not change; instead, the options allowing exemptions from full restatement affect the application of that principle. Thus, the date of transition will depend in practice on whether the entity elects under para. 29.3 to apply Section 29 (i.e. fully retrospective basis with exemptions) – reflected in para. 29.6(a) – or apply Section 29 (modified retrospective basis) reflected in para. 29.6(b);

- (f) edits in para. 29.8 to align with para. 29.7 to refer to “date of transition” which aligns with para. 35.8 of the IFRS for SMEs ED because referring to the beginning of the reporting period is unnecessary and creates complexity by triggering the need to explain the conditional nature of when changes in accounting policies occur.
- (g) correcting an erroneous cross-reference from para. 29.11(d) (as renumbered) to Section 9 (which aligned with para. 35.10(o) of the IFRS for SMEs ED) since entities applying para. 29.11(d) apply Section 29 only; and
- (h) adding draft para. 29.11(e) to enable first-time adopters of the Tier 3 Standard to make an irrevocable election to present changes in the fair value of particular financial assets in other comprehensive income (i.e. to avoid those entities from being penalised for not having applied that Standard previously).

Agenda Paper 3.3 for this meeting

Since the Subcommittee members’ review, staff reassessed the drafting of Section 29 and now present an alternative approach to the drafting to group the disclosure requirements common to appliers of Section 9 and Section 29, and disclosures specific to appliers of either of those sections. Please refer to Agenda Paper 3.3 for this meeting, including **Question 7** for Board members in that paper. All Board decisions on **Question 7** below in this paper and the marked-up amendments in the draft text below should be assumed to be carried across to the alternative draft text for Section 29 in Agenda Paper 3.3.

Question 7 to Board members

In Agenda Paper 3.11 for this meeting, staff suggested further simplifications to make optional:

- the presentation of reconciliations of equity and profit or loss determined in accordance with the entity’s previous financial reporting framework to its equity and profit or loss determined in accordance with Tier 3 (equivalent requirement is in para. 210(b) and (c) of AASB 1060) renumbered below as para. 29.16(b) and (c); and
- the disclosure of the nature of each change in accounting policy in the first Tier 3 financial statements if the entity’s most recent previous financial statements were special purpose in nature (equivalent requirement is in para. 210(a) of AASB 1060) renumbered below as para. 29.16.

Staff’s first of these suggested simplifications is similar to para. 142 of [IPSAS 33](#) *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*, which contains highly similar reconciliations that are not required by that Standard if a first-time adopter applied a cash basis of accounting in its previous financial statements. Staff note this exemption provides a precedent for granting relief from the requirement to present such reconciliations; however, staff suggest going further and making the reconciliations voluntary for all first-time adopters of the Tier 3 Standard. Staff expressed the optionality of the requirements using the phrase “encouraged, but not required” in para 29.16(b) and (c).

The second of staff’s suggested simplifications reflects staff’s view that the differences between special purpose financial statements and general purpose financial statements prepared in accordance with the Tier 3 Standard often would be numerous and pervasive, such that users of the entity’s financial statements would need to make numerous time-consuming adjustments to comparative information in assessing the implications of the change to preparing general purpose financial statements. Staff question whether the marginal benefit from disclosure of the various changes in accounting policies, compared with simply being informed that the financial reporting framework applied has changed fundamentally, would be sufficiently significant to warrant requiring disclosure of each material change in accounting policy.

Feedback from Subcommittee: Of the subcommittee members who commented, one noted that research indicates that preparers do not provide ‘encouraged’ disclosures. As such, in their view, the disclosures should either be omitted or mandatory. No comments were received for the second suggested simplification.

Staff recommendation: Staff noted the Subcommittee member’s comments and noted also that there are a few other issues in this draft ED where optional treatments were also stated including, for example:

- para. 17.5 – an entity may elect to restate comparative information for one or more periods as if the entity combination occurred in a prior period;

- para. 12.9 – an entity may include in costs of conversion a systematic allocation of production overhead costs incurred in the conversion process for inventory; and
- para. 6.11 – an entity may elect to present cash flows from investing and financing activities separately or together.

As such, staff remain of the view to provide optionality for the disclosure requirements drafted in para. 29.16(b) and (c) which would simplify the Tier 2 requirements by allowing entities to provide those disclosures should they elect to do so. However, staff suggest revising the wording in the leading subparagraphs to “may elect”, rather than “is encouraged, but not required”, to be consistent with drafting used in other sections. Staff analysis and recommendation only pertain to the first suggested simplification since Subcommittee members did not comment on or object to the second suggested simplification. Hence, no question is raised with the Board on the second suggested simplification.

Do Board members agree with the staff recommendation to make optional providing the disclosures in para. 29.16(b) and 29.16(c), including changing the leading words in those subparagraphs to “may elect”?

If not, would Board members prefer to omit or mandate those disclosures instead (and, if so, which of these approaches)?

Section 29: Transition to General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities

Scope and application of this section

- 29.1 ~~Subject to the option in paragraph 29.3, this section applies to a first-time adopter of this Standard shall apply this section, regardless of its previous accounting framework (eg another tier of Australian Accounting Standards or special purpose financial statements) and whether it has previously applied this Standard. An entity's in its first Tier 3 financial statements. These are the first financial statements that both:~~
- conform with the requirements of this Standard in all respects; and
 - contain an explicit and unreserved statement that they comply fully with this Standard.
- 29.2 Circumstances in which an entity prepares its first financial statements in accordance with this Standard include when the entity:
- did not present general purpose financial statements for previous periods; or
 - presented its most recent previous financial statements in conformity with Tier 1: Australian Accounting Standards or Tier 2: Australian Accounting Standards – Simplified Disclosures.
- ~~Paragraph 2.19 identifies the components of a complete set of financial statements.~~
- 29.3 ~~Subject to paragraph 29.4, a~~ A first-time adopter of this Standard ~~must shall~~ either apply this section, ~~subject to paragraph 29.4, or~~ apply this Standard on a modified retrospective basis in accordance with Section 9 *Accounting Policies, Estimates and Errors* (ie record the cumulative effect of the new accounting policy as at the beginning of the reporting period of first-time adoption as if it had always been applied, without restating information presented for comparative periods). When such an entity does not elect to apply this section, it is still:
- required to apply the disclosure requirements in paragraph 29.14 in addition to the disclosure requirements in Section 9; and
 - subject to the disclosure options in paragraph 29.15.
- 29.4 In relation to ~~particular~~ some or all assets or liabilities existing on the transition date, first-time adopters of this Standard transitioning from application of Tier 1 or Tier 2 requirements of Australian Accounting Standards (as referred to in AASB 1053 *Application of Tiers of Australian Accounting Standards*) may elect to ~~either:~~
- ~~apply one of the options in paragraph 29.3; or~~
 - continue applying all related Tier 1 or Tier 2 recording, measurement and disclosure requirements to those assets or liabilities, with disclosure of the accounting policy differences from those specified for Tier 3 entities in this Standard.

First-time adoption

- 29.5 ~~Subject to the election in paragraph 29.3, a first time adopter of this Standard shall apply this section in its first financial statements that conform to this Standard (including its requirement in Section 2 *Financial Statement Presentation* to make an explicit and unreserved statement that it complies fully with this Standard).~~
- 29.5 ~~Paragraph 2.12 requires an entity to disclose, in a complete set of financial statements, comparative information in respect of the previous comparable period for all monetary amounts presented in the financial statements, as well as specified comparative narrative and descriptive information. However, on first-time adoption of this Standard, Notwithstanding paragraph 2.12, an entity transitioning to preparing general purpose financial statements in accordance with this Standard need not disclose comparative information in its first Tier 3 financial statements if it did not disclose comparable information in its most recent previous financial statements (whether by note or otherwise). An entity may present comparative information in respect of more than one comparable prior period.~~
- 29.6 Depending on the election made by the entity in paragraph 29.3, and regardless of the election made in paragraph 29.4, an entity's date of transition to this Standard is:
- if the entity elects to apply this section, the beginning of the earliest period for which the entity presents full comparative information in accordance with this Standard in its first financial statements that conform to this Standard; or
 - if the entity elects to apply Section 9, the beginning of the current period in which this Standard is first applied (with the cumulative effect of changed accounting policies on the carrying amounts of assets and liabilities as at that date recorded as at the date of transition).

Procedures for preparing financial statements at the date of transition

- 29.7 Except as provided in paragraphs 29.10 and 29.11, an entity shall on its date of transition to this Standard (ie the beginning of the first reporting period for which this Standard is fully complied with):
- record all assets and liabilities that this Standard requires to be recorded;
 - cease recording items as assets or liabilities if this Standard does not permit such recording;
 - reclassify items previously recorded under another financial reporting framework 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
 - apply this Standard in measuring all recorded assets and liabilities.
- 29.8 The accounting policies an entity uses as at the ~~beginning of the reporting period in which~~ date of transition to this Standard is first adopted might differ from those it used for the immediately preceding reporting date using its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to this Standard. Consequently, an entity shall record those adjustments directly in retained earnings (or, if appropriate, another category of equity) as at the date of transition to this Standard.
- 29.9 An entity may need to make estimates in accordance with this Standard at the date of transition to this Standard that were not required at that date under the entity's previous financial reporting framework. To achieve consistency with Section 27, those estimates made in accordance with this Standard 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.
- 29.10 On first-time adoption of this Standard, an entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following items:
- ceasing to record financial assets and financial liabilities. Financial assets and financial liabilities that an entity ceased recording under its previous financial reporting framework before the date of transition shall not be reinstated (ie recorded) upon adoption of this Standard. Conversely, for financial assets and financial liabilities 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 framework, 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;
 - accounting estimates;
 - fair value measurements; and

- (d) measuring non-controlling interests. The requirements of paragraph 5.6 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.

29.11 Without limitation to the option in paragraph 29.4 for first-time adopters of this Standard transitioning from the application of Tier 1 or Tier 2 requirements of Australian Accounting Standards to continue applying those requirements to assets and liabilities existing on the transition date, an entity may use one or more of the following exemptions in preparing its first financial statements that conform to this Standard:

- (a) fair value or current replacement cost as deemed cost. As at the date of transition to this Standard, a first-time adopter may elect to measure:
 - (i) an item of property, plant and equipment, an investment property or an intangible asset at its fair value; and
 - (ii) an item of inventory at its current replacement cost
 and use that value as its deemed cost as at that date;
- (b) separate financial statements. When an entity prepares separate financial statements, paragraph 8.34 requires it to account for its investments in notable relationship entities at any of:
 - (i) cost;
 - (ii) 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; or
 - (iii) its equity method-based amount determined by following the procedures in paragraph 13.16.

If a first-time adopter measures such an investment at cost as at the date of transition, it may elect to deem the fair value of that investment at that date to be that investment's 'cost' (ie use 'deemed cost' to measure the investment);

- (c) restoration/rehabilitation liabilities 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 any related restoration, rehabilitation or other 'make good' obligation. A first-time adopter 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;
- (d) revenue. A first-time adopter may apply Section 20: *Revenue* either retrospectively or prospectively. ~~The first-time adopter need not apply paragraph 9.13(c), which requires disclosure of the current period effects of adopting this Standard on each financial statement line item affected.~~

When applying Section 20 retrospectively to completed contracts/arrangements (ie contracts/arrangements for which the entity has transferred all the promised goods or services identified in accordance with its previous financial reporting framework), for all contracts/arrangements with variable consideration, an entity may use the transaction price at the contract's/arrangement's date of completion (rather than estimating variable consideration amounts in the comparative reporting periods), provided it discloses its use of this practical expedient.

When applying Section 20 prospectively, an entity shall:

- (i) apply that section to contracts/arrangements that begin, and transactions that occur, after the date of transition to this Standard. Therefore, the entity does not change its accounting policy for any contracts/arrangements in progress at that date; and
 - (ii) disclose the nature of the changes in accounting policy; and
- (e) financial assets measured at fair value as at each measurement date. For a class of financial assets acquired or originated by the entity to generate both income and a capital return for it, and measured at fair value as at each measurement date in accordance with paragraph 10.6(a), the date of transition to this Standard may be deemed to be the date of initial recording of the first asset in that class. Consequently, if such a class of financial assets were held upon the date of transition to this Standard, the irrevocable election permitted by paragraph 10.6(a)(i) to present changes in the fair value of that class in other comprehensive income may be made as at the date of transition to this Standard by deeming that date to be the date of initial recording of the first asset in that class.

Disclosures

- 29.12 The disclosures in paragraphs 29.13–29.19 shall be made if an entity applies the requirements of this section on first-time adoption. If an entity applies the requirements of Section 9 *Accounting Policies, Estimates and Errors* on first-time adoption, it shall make the disclosures required by Section 9.

Explanation of transition to this Standard

- 29.13 An entity shall explain how the transition from its previous financial reporting framework to this Standard affected its reported financial position, financial performance and cash flows.
- 29.14 An entity that has applied this Standard in a previous period shall disclose:
- (a) the reason it stopped applying this Standard;
 - (b) the reason it is resuming the application of this Standard; and
 - (c) whether it applied this section or applied this Standard using a modified retrospective approach in accordance with Section 9.
- 29.15 Regardless of whether a first-time adopter of this Standard elects to apply this section or Section 9 (see paragraph 29.3), on first-time adoption the entity:
- (a) in accordance with paragraph 29.5, need not disclose comparative information for the previous comparable period if it did not disclose comparative information in its most recent previous financial statements. Therefore, entities applying a modified retrospective basis to adopt this Standard in accordance with Section 9 need not disclose comparative information under the accounting policy previously applied to an item that was not previously disclosed; and
 - (b) need not distinguish corrections of prior period errors from changes in accounting policies when disclosing adjustments to the carrying amounts of assets, liabilities or items of equity on initial adoption.

Reconciliations

- 29.16 In its first financial statements prepared using this Standard, an entity:
- (a) shall include a description of the nature of each change in accounting policy;
 - (b) is encouraged, but not required, to include reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this Standard for both of the following dates:
 - (i) the date of transition to this Standard; and
 - (ii) the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework; and
 - (c) is encouraged, but not required, to include a reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with this Standard for the same period.

However, if the most recent previous financial statements of a first-time adopter of this Standard were special purpose financial statements, the entity may elect not to make the disclosures in (a) in its first financial statements prepared in accordance with this Standard.

- 29.17 If an entity did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to this Standard.
- 29.18 If an entity applies one or more of the exemptions set out in paragraphs 29.5 and 29.15, it shall disclose that fact.
- 29.19 An entity that, on first-time adoption of this Standard, presents comparative information on a different basis than as required by this Standard for subsequent periods 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 financial reporting framework under which it was prepared (eg special purpose financial reporting, Australian-Accounting-Standards financial statements (Tier 1) or Australian-Accounting-Standards financial statements (Tier 2)).

Note to Board members

As noted in Agenda Paper 4.3 at the March 2024 Board meeting, staff have developed the glossary based on the IFRS for SMEs Accounting Standard ED requirement of its glossary with markups to definitions to align with the body of the Standard. Staff have further removed (through strikethrough mark-up) definitions since last presented to the Board (with Staff comments in the margin of the corresponding paragraph number that contains the definition for the Board's information), for the following reasons:

- (a) To remove definitions that are already defined within the Sections;
- (b) The term is not used within the Tier 3 ED; and
- (c) Tier 3 Standard will not include the applicable requirements.

Staff have also included the definitions of:

- (i) a Tier 3 Entity which is based on the AASB 1053 amendments drafting in Appendix C (para. 16A), that is:

A not-for-profit private sector entity that is:

- (a) without public accountability; and*
- (b) not prohibited from applying Tier 3 reporting requirements by the relevant legislation or constituting documents or other document.*

- (ii) Donation to capture that it may be at an amount of nil or nominal or an amount that is significantly less than fair value, that is:

An acquisition of an asset by the entity for a cost to it 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.

Appendix A Glossary of terms

This appendix is an integral part of the Standard

accounting estimates	Monetary amounts in financial statements that are subject to measurement uncertainty.
accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements
accumulating compensated absences	Compensated absences that are carried forward and can be used in future period if the current period's entitlement is not used in full.
acquiree	The business or businesses that the acquirer obtains control of in a business combination.
acquirer	The entity that obtains control of the acquiree.
business	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of: (a) providing goods or services to customers; (b) generating investment income (such as dividends or interests); or (c) generating other income from ordinary activities.
business combination	A transaction or other event in which an acquirer obtains control of one or more businesses.
carrying amount	The amount at which an asset, or liability or equity is recognised recorded in the Statement of Financial Position.

cash	Cash on hand and demand deposits.
cash equivalent	Short term, highly liquid investment that are readily convertible to known amounts of cash that are subject to an insignificant risk of changes in value.
cash flows	Inflows and outflows of cash and cash equivalents.
cash-generating unit	The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets
class of assets	A grouping of assets of a similar nature and use in an entity's operations.
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: <ul style="list-style-type: none"> (a) that person's children and spouse or domestic partner; (b) children of that person's spouse or domestic partner; and (c) dependents of that person or that persons' spouse or domestic partner.
component of an entity	Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.
compensation	Compensation includes all employee benefits (as defined in Section 24 <i>Employee Benefits</i>). Employee benefits include all forms of consideration paid, payable or provided by the entity, or on behalf of the entity (for example, by its parent or by a shareholder), in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of goods or services provided to the entity.
contingent consideration	Usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to return of previously transferred consideration if specified conditions are met.
contract	An agreement between two or more parties that creates enforceable rights and obligations.
contractual interest rate	The rate that is specified in the contract upon a loan agreement or financial contract between a borrower and a lender. The contractual interest rate does not take into consideration any fees, points paid or received, transaction costs and other premiums or discounts on acquisition of the financial instrument.
date of initial application	The date an entity first applies the first edition of the Tier 3 Standard.
date of transition to the Tier 3 Standard	The beginning of the earliest period for which an entity presents full comparative information under the Tier 3 Standard in its first financial statements that comply with the Tier 3 Standard.
depreciable amount	The cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.
derecognition	The removal of all or part of a recognised recorded asset or liability from an entity's Statement of Financial Position.
development	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.
dividends	Distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital.

donation	<u>An acquisition of an asset by the entity for a cost to it 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.</u>
employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees.
errors	Omissions from, and misstatement in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: <ul style="list-style-type: none"> (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.
exit price	The price that would be received to sell an asset or paid to transfer a liability.
financial asset	Any asset that is: <ul style="list-style-type: none"> (a) cash; (b) an equity instrument of another entity' (c) a contractual right: <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> (i) under which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) that will or may be settled other than by 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	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
financial liability	Any liability that is a contractual obligation: <ul style="list-style-type: none"> (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial asset or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.
financial position	The relationship of the assets, liabilities and equity of an entity as reported in the Statement of Financial Position.
financial statements	Structured representation of financial position, income and expense and cash flows of an entity.
financing activities	Activities that result in change in the size and composition of the equity and borrowings of the entity.
first-time adopter of the Tier 3 Standard	An entity that presents its first annual financial statements that conform to the Tier 3 Standard, regardless of whether its previous accounting was full IFRS Accounting Standards or another set of accounting standards.

general purpose financial statements	A particular form of general purpose financial reports that provide information about the reporting entity's assets, liabilities, equity, income and expenses.
going concern	An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
goodwill	An asset representing the future economic benefits arising from other asset acquired in a business combination that are not individually identified and separately recognised.
government	Government, government agencies and similar bodies whether local, national or international.
group	A parent and all its subsidiaries.
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 statement	A financial statement that presents all items of income and expenses recognised in a reporting period, excluding the items of other comprehensive income.
income tax	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	An identifiable non monetary asset without physical substance. Such an asset is identifiable when it: <ul style="list-style-type: none"> (a) is separable, ie is 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.
inventories	Asset: <ul style="list-style-type: none"> (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.
inventories held for distribution	Assets: <ul style="list-style-type: none"> (a) held for distribution at no or nominal consideration in the ordinary course of operation; (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 asset and other investments not included in cash equivalents.
investment property	Property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, instead of for:

	<p>(a) use in the production or supply of goods or services or for administrative purposes; or</p> <p>(b) sale in the ordinary course of business.</p>
lease	An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
loans payable	Financial liabilities other than short-term trade payables on normal credit terms.
market participants	<p>Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:</p> <p>(a) they are independent of each other, that is, they are not related parties as defined in Section 28;</p> <p>(b) they are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information;</p> <p>(c) they are able to enter into a transaction for the asset or liability; and</p> <p>(d) they are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.</p>
minimum lease payments	<p>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:</p> <p>(a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or</p> <p>(b) for a lessor, any residual value guaranteed to the lessor by:</p> <p>(i) the lessee;</p> <p>(ii) a party related to the lessee; or</p> <p>(iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.</p>
monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.
multi-employer (benefit) plans	<p>Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:</p> <p>(a) pool the asset contributed by various entities that are not under common control; and</p> <p>(b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.</p>
non-controlling interest	The equity in a subsidiary not attributable, directly or indirectly, to a parent.
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 financial statements)	Notes contain information in addition to that presented in the statement of financial position, statement of comprehensive income, income statement (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregation of items presented in those statements and information about items that do not qualify for recognition in those statements.

notable relationship	When the reporting entity has at least significant influence over that entity (with or without holding an investment in the other entity's equity instruments, if any exist) and includes, but not limited to, having control or joint control over that other entity.
observable inputs	Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumption that market participants would use when pricing the asset or liability.
offsetting (netting off)	Grouping an asset and liability that are recognised <u>recorded</u> and measured as separate units of account into a single net amount in the statement of financial position.
operating activities	The principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
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 (for example 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 expenses (including reclassification adjustments) that are not recognised <u>recorded</u> in profit or loss as required or permitted by this Standard.
owners	Holders of instruments classified as equity
parent	An entity that has one or more subsidiaries.
performance	The relationship of the income and expenses of an entity, as reported in the statement of comprehensive income.
post-employment benefits	Employee benefits (other than termination benefits) that are payable after the completion of employment.
post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.
probable	More likely than not.
profit or loss	The total of income less expenses, excluding the components of other comprehensive income.
promise	An obligation or common understanding between the entity and the provider to transfer goods or services.
property, plant and equipment	Tangible assets that: <ul style="list-style-type: none"> (a) are held for use in the production or supply of goods or services, for rental to others or for administrative purposes; and (b) are expected to be used during more than one period.
prospective application (of a change in accounting policy)	Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed.
provision	A liability of uncertain timing or amount.
provider	A provider of asset or assets to the entity such as:

- (a) a customer that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for considerations; or
- (b) a funding provider that provides resources to the reporting entity.

public accountability

An entity has public accountability if:

- ~~(a) it 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 market); or~~
- ~~(b) it holds asset in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).~~

publicly traded (debt or equity instruments)

~~Traded, or in process of being issued for trading, in a public market (a domestic or foreign stock exchange or an over the counter market, including local and regional market).~~

recoverable amount

The higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use.

related party

A related party is a person or an entity that is related to the reporting entity, taking into account the principle in paragraph (c):

- (a) a person or a close member of that person's family is related to a reporting entity or of a parent of the reporting entity:
 - (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 any of the following conditions applies:
 - (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 ~~jointly controlled entity~~ joint venture of the other entity (or an associate or ~~jointly controlled entity~~ joint venture of a member of a group of which the other entity is a member).
 - (iii) both entities are ~~jointly controlled entities~~ joint ventures of the same third entity.
 - (iv) One entity is a ~~jointly controlled entity~~ 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.
 - (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).
- (c) For a person or an entity to be identified as related to the reporting entity, it is unnecessary to identify which particular factor or condition listed in paragraph (a) is satisfied. For example, if the reporting entity is uncertain whether another entity is controlled, or

significantly influenced, by it, this uncertainty does not preclude identification of that other entity as a related party.

- (d) In the context of this Standard, the following are not necessarily related parties:
- (i) two entities simply because they have a director or other member of key management personnel in common;
 - (ii) two entities simply because they have a director or other member of key management personnel in common;
 - (iii) 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):
 - (A) providers of finance;
 - (B) trade unions;
 - (C) public utilities; or
 - (D) government departments and agencies; and
 - (iv) 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.

related party transaction	A transfer of resources (whether cash, goods or services) or obligations between a reporting entity and a related party, regardless of whether a price is charged.
relevant activities (of an investee)	The activities that significantly affect the investee's returns.
reporting date	The end of the latest period covered by financial statements.
reporting period	The period covered by financial statements.
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
residual value (of an asset)	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.
retrospective application (of a change in accounting policy)	Applying a new accounting policy to transaction, other events and conditions as if that policy has always been applied.
revenue	Income arising in the course of an entity's ordinary activities.
state (employee benefit) plan	Employee benefit plan established by legislation to cover all entities (or all entities in a particular category, for example a specific industry) and operated by national or local government or by another body (for example an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity.
statement of cash flows	A financial statement that provides information about the changes in cash and cash equivalents of an entity for a period, showing separately changes during the period from operating separately from investing and financing activities. An entity may present changes from investing and financing activities together or separately.
statement of changes in equity (or statement of changes in net assets)	A financial statement that presents the profit or loss for a period, items of income and expense recognised directly in equity for the period, the effects of changes in accounting policy and corrections of errors recognised in the period and (depending on the format of the statement of changes in equity

	chosen by the entity) the amounts of transactions with owners acting in their capacity as owners during the period.
statement of comprehensive income	A financial statement that presents all items of income and expense recognised in a period, including those items recognised in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income. If an entity chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.
statement of financial position	A financial statement that presents the relationship of an entity's assets, liabilities and equity as of a specific date (also called the balance sheet).
statement of income and retained earnings	A financial statement that presents the profit or loss and changes in retained earnings for a period.
tax expense	The aggregate amount included in total comprehensive income for the reporting period in respect of current tax.
<u>Tier 3 entity</u>	<u>A not-for-profit private sector entity that:</u> <ul style="list-style-type: none"> (a) <u>does not have public accountability; and</u> (b) <u>is not prohibited from applying Tier 3 reporting requirements by the relevant legislation or constituting documents or other document.</u>
total comprehensive income	The change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners (equal to the sum of profit or loss and other comprehensive income).
transaction costs	The cost to sell an asset or transfer a liability that are directly attributable to the disposal of the asset or the transfer of the liability such as costs of marketing an asset for sale and meet both the following criteria: <ul style="list-style-type: none"> (a) they result directly from and are essential to that transaction; and (b) they would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.
transport cost	The costs that would be incurred to transport an asset from its current location to its principal market.
unit of account	The right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and measurement concepts are applied.
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 asset by an entity.

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 ... [a date at least three years after the issue of this Standard]. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact.

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 and Interpretations set out in AASB 1057 *Application of Australian Accounting Standards*.

The amendments apply to annual reporting periods beginning on or after ... [the date as per paragraph B1]. 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 (or an Interpretation) as subsequently amended, unless otherwise indicated. The amendments also apply, as far as possible and necessary, to earlier principal versions of the amended Standards and Interpretations 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 or an Interpretation, 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 is amended. New text is underlined

...

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 Standard – Simplified Accounting.

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

Paragraphs 7, 13(b) and 16 are amended; and paragraphs 9A, 16A–16D, 18E, 20B–20C and 25–27 are added. Sub-headings are added before paragraphs 16A and 20B.

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 Standard – Simplified Accounting.

...

9A Tier 3: Australian Accounting Standard – Simplified Accounting comprises simplified recognition, measurement, presentation and disclosure requirements for Tier 3 entities. The Tier 3 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 the Tier 3 reporting requirements in AASB 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*; and**

(c) ...

Note to Board members

Staff recommend amending paragraph 16 of AASB 1053 and adding paragraph 16D because, upon the issue of the Tier 3 Standard, the statement in the first sentence of paragraph 16 would no longer be accurate. The draft reference to “substantially reduced disclosure requirements” ties in with paragraph 9 of AASB 1053.

16 Disclosures under Tier 2 reporting requirements are the minimum disclosures required to be included in general purpose financial statements of for-profit entities, public sector entities and not-for-profit private sector entities that are not permitted to prepare general purpose financial statements under Tier 3 reporting requirements. Entities may include additional disclosures to those required by the substantially reduced Tier 2 disclosure requirements by 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.

Question 8 to Board members

At its meeting on 6 – 7 June 2024, the Board decided not to specify any reporting thresholds regarding entities that would be permitted to apply the Tier 3 Standard. Staff recommend that paragraph 16A, regarding the application of Tier 3 reporting requirements, includes a reference (in sub-paragraph (b)) to entities that are not prohibited from applying Tier 3 reporting requirements by the relevant legislation, constituting document or other document. Such a reference would:

- distinguish the applicability of Tier 3 reporting requirements from the applicability of Tier 2 reporting requirements;
- avoid any inference that Tier 3 reporting requirements may be applied without consideration of the relevant legislative requirements or requirements of constituting or other document, when the Board’s decision not to specify reporting thresholds acknowledges the role of legislation or other sources of reporting requirements in determining which entities may apply different tiers of Australian Accounting Standards; and
- be consistent with the Board’s decision not to specify reporting thresholds for, or other particular characteristics of, not-for-profit private sector entities that may apply Tier 3 reporting requirements.

In sub-paragraph (b), “entities that are ... not prohibited from applying Tier 3 reporting requirements ...” is used instead of, for example, “entities that qualify as ‘Tier 3 entities’ under the relevant legislative requirements” because including the latter phrase could prohibit valid entities from applying Tier 3 reporting requirements unless and until those requirements are formally recognised in some manner by the relevant legislation.

Staff considered including “smaller” before “not-for-profit private sector entities” in the stem of paragraph 16A but refrained from doing so because, although “smaller” would reflect the general nature of the intended cohort of entities, it seems too imprecise for an application paragraph.

Do Board members agree that staff’s suggested drafting in paragraph 16A, when referring to the NFP private sector entities that may apply the Tier 3 reporting requirements, reflects the Board’s decision not to specify any reporting thresholds regarding the entities that would be permitted to apply the Tier 3 Standard?

If not, what do Board members suggest?

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 the relevant legislation, constituting document or other 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 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 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.

Note to Board members

Regarding the Tier 3-equivalent text for para. 17 – 18D of AASB 1053 (within the section thereof entitled ‘Application of AASB 1’) in draft new para. 18E below, staff consider that:

- Tier 3 equivalents to para. 17 and 18B – 18D of AASB 1053 (see text indented below) are not warranted. This is because none of AASB 1, AASB 108 and AASB 1060 applies to first-time application of Tier 3 reporting requirements; first-time application requirements for Tier 3 reporting are set out in the proposed Tier 3 Standard itself only. Agenda Paper 5.2 at this meeting deals with the amendments to AASB 1053 and transitional provisions for other NFP entities transitioning from SPFS to Tier 1/Tier 2 requirements;
 - “Entities adopting Tier 2 reporting requirements for the first time that apply AASB 1 shall comply with the simplified disclosures under AASB 1060 paragraphs 206–213, including for the purposes of paragraphs 18A(a) and 18A(b).” (para. 17)
 - “An entity applying paragraph 18A(c) continues applying the applicable recognition and measurement requirements of Australian Accounting Standards, whether it had previously initially applied recognition and measurement requirements consistent with AASB 1 or a predecessor to AASB 108, whichever was applicable at the time.” (para. 18B)
 - “Entities that are applying AASB 1060 shall provide the disclosures required under AASB 1060 paragraphs 206–213 if they are applying paragraph 18A(a)(i) or 18A(b)(i), or the disclosures required under AASB 1060 paragraphs 106–110 if they are applying paragraphs 18A(a)(ii) or 18A(b)(ii), instead of the disclosures required under AASB 1 or AASB 108.” (para. 18C)
 - “Paragraph 18A(a) addresses where an entity has not applied, or only selectively applied, applicable recognition and measurement requirements, rather than whether the entity had made an explicit and unreserved statement of compliance with such requirements. As such, if an entity becomes aware it had claimed compliance with applicable recognition and measurement requirements of Australian Accounting Standards in error in its most recent previous special purpose financial statements, the entity applies paragraph 18A(a).” (para. 18D)
- a Tier 3 equivalent to para. 18 of AASB 1053 (see text indented below) is not warranted. This is because, under the Board’s decisions, the procedures for first-time application of the Tier 3 reporting requirements are unaffected by whether the entity’s most recent previous financial statements were special purpose in nature. The Tier 3 alternative to para. 18 of AASB 1053 is set out in draft para. 18E below, and is consistent with the Board’s [decision](#) at its 6 – 7 June 2024 meeting to “develop transitional requirements based on AASB 1 ... for entities applying the Tier 3 Standard for the first time. Alternatively, these entities would apply the Tier 3 Standard directly by applying a modified retrospective approach to resulting changes in accounting policies ...” (Agenda Item 3, minute (e)).
 - “When applying Tier 1 reporting requirements for the first time, an entity that prepared its most recent previous financial statements in the form of special purpose financial statements shall apply all the relevant requirements of AASB 1.” (para. 18)

- 18E When applying Tier 3 reporting requirements for the first time, an entity shall apply the first-time application requirements set out in AASB 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*. Pursuant to paragraph 29.3 of AASB 10XX, an entity elects to apply either:
- (a) the first-time application requirements in Section 29 of AASB 10XX, including the disclosures in paragraphs 29.13–29.19; or
 - (b) the requirements in Section 9 of AASB 10XX on a modified retrospective basis. An entity selecting this option shall also apply the disclosure requirements in paragraphs 29.14–29.20 and 29.24 in Section 29 of AASB 10XX.

Note to Board members

Staff recommend adding draft para. 20B of AASB 1053 (which would follow para. 20A, with an added heading). Draft new para. 20B concerns entities that resume application of Tier 3 reporting requirements, e.g. where an entity discontinued application of Tier 3 reporting requirements and applied accounting policies that do not comply with Australian Accounting Standards (for example, in the form of cash accounting) for some periods before resuming application of Tier 3 reporting requirements. Draft para. 20C elaborates on an aspect of draft para. 20B. The requirements for entities resuming application of the Tier 3 reporting requirements were not specifically raised for the Board's consideration at its meeting on 6 – 7 June 2024. Staff recommend aligning with the requirements of para. 19B of AASB 1053 and its explanation in para. 20 of that Standard for resumption of applying Tier 2 reporting requirements, when specifying requirements for resuming application of the Tier 3 reporting requirements (albeit reflecting the particular transition options for Tier 3 entities, which include modified retrospective application of accounting policies in accordance with Section 9). This is because the principle that entities that previously applied all applicable Tier 2 recognition and measurement requirements should not use transitional provisions when continuing to apply those recognition and measurement requirements upon resuming application of Tier 2 seems equally relevant to entities resuming application of Tier 3 reporting requirements.

Staff also consider there is no need to include a Tier 3 equivalent to para. 19A of AASB 1053 (see text indented below) because compliance with IFRS is not claimed by entities applying Tier 3 reporting requirements.

“An entity that is to claim IFRS compliance on resuming Tier 1 reporting requirements under paragraph 19, 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.” (para. 19A)

Staff consider that a Tier 3 NFP equivalent to existing para. 20A of AASB 1053 (regarding ‘Reapplication of Tier 2 Reporting Requirements in Initial Consolidated Financial Statements’: see text indented below) is not warranted because existing para. 20A addresses transition to the Tier 2 requirement to present consolidated financial statements, whereas the proposed Tier 3 Standard would not require presentation of consolidated financial statements. The issue of whether the scope of existing para. 20A of AASB 1053 should be extended to also include Tier 2 NFP private sector entities is addressed in **Agenda Paper 5.2** (the draft ED entitled *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*).

“A for-profit private sector entity that:

- (a) prepared its most recent previous annual financial statements in compliance with Tier 2 reporting requirements, including an explicit and unreserved statement of compliance with Tier 2 reporting requirements;
- (b) did not present consolidated financial statements, on the basis that neither the parent nor the group was a reporting entity (as defined in AASB 1057); and
- (c) is preparing consolidated financial statements for the first time in compliance with Tier 2 – Simplified Disclosures;

shall apply either:

- (d) all the relevant requirements of AASB 1; or
- (e) Tier 2 reporting requirements directly using the requirements in AASB 108.” (para. 20A).

Staff also consider entities that discontinued the application of Tier 3 reporting requirements in a previous reporting period and applied Tier 1 or Tier 2 reporting requirements for its most recent previous reporting period should also apply the draft para.20B and 20C on reapplication of Tier 3 reporting requirements. Therefore, staff consider the heading for draft para 20B and 20C should refer to *Reapplication of Tier 3 Reporting Requirements* (rather than using a similar heading equivalent to existing para 19 – 19B, which refers to *Reapplication of Australian Accounting Standards other than Transitioning between Tiers*).

Reapplication of Tier 3 Reporting Requirements

20B 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 29 of AASB 10XX, or the option for modified retrospective application of Tier 3 reporting requirements in accordance with Section 9 of AASB 10XX 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 29 of AASB 10XX, or the option for modified retrospective application of Tier 3 reporting requirements in accordance with Section 9 of AASB 10XX, if the entity applied all applicable recognition and measurement requirements of AASB 10XX.

20C Entities described in paragraph 20B(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 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 of AASB 10XX, is prohibited from applying either Section 9 or Section 29 of AASB 10XX on returning to Tier 3 requirements. Instead, it continues applying applicable recognition and measurement requirements, whether it had previously initially applied Section 9 or Section 29 of AASB 10XX. 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 Section 29 of AASB 10XX, or the option for modified retrospective application of Tier 3 reporting requirements in accordance with Section 9 of AASB 10XX, on resuming the application of Tier 3 reporting requirements.

Question 9 to Board members

Do Board members agree with the staff’s recommendation to include requirements for the resumption of Tier 3 reporting requirements that align with the corresponding Tier 2 requirements, as set out in draft para. 20B–20C above?

Note to Board members

Draft para. 25 reflects the Board’s [decision](#) at its 6 – 7 June 2024 meeting that “entities transitioning from Tier 3 GPFS to Tier 1 ... GPFS for the first time would apply AASB 1” (Agenda Item 3, minute (f)).

Draft para. 25A and 26 reflect the Board’s decision at its 6 – 7 June 2024 Board meeting that a Tier 3 entity moving to Tier 2 for the first time would apply AASB 1 and not be required to restate comparative information, provide comparative information for new disclosures; or distinguish corrections of errors and changes in accounting policies (see meeting [minutes](#)). Staff included para. 25A(a) and (b) to be consistent with existing para. 18A, which permits an entity that previously prepared financial statements in the form of SPFS (without or without applying R&M) could either apply AASB 1 or Tier 2 requirements directly using AASB 108.

Draft para. 27 replicates (and modifies as necessary) para. E7 of AASB 1053, which provided specific short-term relief from some disclosures in AASB 1060, and required compensating disclosure of reconciliations, in an entity’s first Tier 2-compliant financial statements. The objective of draft para. 27 is to provide equivalent (albeit permanent) relief for entities transitioning from Tier 3 reporting requirements to Tier 2 reporting requirements, consistent with the Board’s decision at its meeting held on 6 – 7 June 2024 to provide the specific reliefs reflected in para. 26, which are consistent with the reliefs previously provided to Tier 2 entities on initial application of AASB 1060.

- 25 An entity transitioning from preparing general purpose financial statements in accordance with Tier 3 reporting requirements to preparing general purpose financial statements in accordance with Tier 1 reporting requirements for the first time shall apply all the relevant requirements of AASB 1.
- 25A An entity transitioning from preparing general purpose financial statements in accordance with Tier 3 reporting requirements to preparing general purpose financial statements in accordance with Tier 2 reporting requirements for the first time shall, subject to paragraph 26, apply either:
 - (a) all the relevant requirements of AASB 1; or

- (b) Tier 2 reporting requirements directly using the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- 26 An entity applying paragraph 25A is not required to:
- (a) restate comparative information presented for prior periods as if the Tier 2 reporting requirements had been applied from the beginning of the earliest prior period presented;
 - (b) provide comparative information for new disclosures made in accordance with the Tier 2 reporting requirements; or
 - (c) distinguish corrections of errors made in periods prior to first-time adoption of the Tier 2 reporting requirements from changes in accounting policies.
- 27 An entity applying paragraph 26(a) to not restate comparative information in its first financial statements compliant with Tier 2 reporting requirements need not provide the reconciliations required by AASB 1060 paragraphs 210(b) and (c). The entity shall:
- (a) present two statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity and related notes, as follows:
 - (i) the statements and related notes as at the end of the first Tier 2 reporting period, compliant with Tier 2 reporting requirements; and
 - (ii) the statements and related notes presented in its most recent previous financial statements compliant with Tier 3 reporting requirements;
 - (b) disclose a reconciliation of its equity presented in its most recent previous financial statements compliant with Tier 3 reporting requirements to its equity determined in accordance with Tier 2 reporting requirements at the date of transition to Tier 2 reporting requirements;
 - (c) disclose a description of the main adjustments that would have been required to make the comparative statement of profit or loss and other comprehensive income and separate statement of profit or loss (if presented) compliant with Tier 2 reporting requirements. The entity need not quantify those adjustments; and
 - (d) prominently label the comparative information that is not compliant with Tier 2 reporting requirements as such.

Note to Board members

The draft amendments to AASB 1057 to extend the application of Australian Accounting Standards to NFP entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards, and to not-for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or the specified date will be addressed in Agenda Paper 5.2 for this meeting (refer to Note 27 to Board members in that paper).

AASB 1057 Application of Australian Accounting Standards (July 2015)

Paragraphs 21 and 21A are added.

- 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 the relevant legislation, constituting document or other document.
- 21A Entities applying AASB 10XX are not required to apply the following Australian Accounting Standards and Interpretations:
- (a) AASB 1 *First-time Adoption of Australian Accounting Standards*;
 - (b) AASB 3 *Business Combinations*;

- (c) AASB 10 *Consolidated Financial Statements*;
- (d) AASB 11 *Joint Arrangements*;
- (e) AASB 12 *Disclosure of Interests in Other Entities*;
- (f) AASB 13 *Fair Value Measurement*;
- (g) AASB 14 *Regulatory Deferral Accounts*;
- (h) AASB 15 *Revenue from Contracts with Customers*;
- (i) AASB 16 *Leases*;
- (j) AASB 18 *Presentation and Disclosure in Financial Statements*;
- (k) AASB 101 *Presentation of Financial Statements*;
- (l) AASB 102 *Inventories*;
- (m) AASB 107 *Statement of Cash Flows*;
- (n) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (o) AASB 110 *Events after the Reporting Period*;
- (p) AASB 112 *Income Taxes*;
- (q) AASB 116 *Property, Plant and Equipment*;
- (r) AASB 119 *Employee Benefits*;
- (s) AASB 121 *The Effects of Changes in Foreign Exchange Rates*;
- (t) AASB 123 *Borrowing Costs*;
- (u) AASB 124 *Related Party Disclosures*;
- (v) AASB 127 *Separate Financial Statements*;
- (w) AASB 128 *Investments in Associates and Joint Ventures*;
- (x) AASB 129 *Financial Reporting in Hyperinflationary Economies*;
- (y) AASB 133 *Earnings per Share*;
- (z) AASB 134 *Interim Financial Reporting*;
- (aa) AASB 136 *Impairment of Assets*;
- (bb) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
- (cc) AASB 138 *Intangible Assets*;
- (dd) AASB 140 *Investment Property*;
- (ee) AASB 1004 *Contributions*;
- (ff) AASB 1039 *Concise Financial Reports*;
- (gg) AASB 1048 *Interpretation of Standards*;
- (hh) AASB 1054 *Australian Additional Disclosures*;
- (jj) AASB 1058 *Income of Not-for-Profit Entities*;
- (ii) AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

Question 10 to Board members

The proposed amendments to AASB 1053 and AASB 1057 have not been considered by the Board previously. Their drafting was based on enabling application of the Board's decisions to date in this project, including facilitating transfers between tiers of reporting consistent with those decisions.

Do Board members agree with the staff's drafting of the proposed amendments to AASB 1053 and AASB 1057 in Appendix C?

If not, what do Board members suggest?

Question 11 to Board members

As presented in [Agenda Paper 4.3](#) the working draft of Tier 3 Exposure Draft at the March 2024 meeting, the Board decided the approach to developing non-mandatory illustrative examples would be based on whether stakeholder feedback was received on the DP for the need to develop and provide further clarification or examples for a particular aspect of the Tier 3 proposals. Staff have also considered the illustrative examples from other jurisdictions or frameworks and assessed whether their inclusion would be helpful to be included in the Tier 3 Standard. Staff have drafted examples for the following circumstances, based on the feedback from the DP stakeholders indicated that would be helpful:

- (i) provision of long service leave including on cost (Subcommittee members have reviewed and agreed with this example);
- (ii) donations provided in response to a specific campaign to illustrate the Tier 3 revenue recognition requirement; and
- (iii) contingent assets and when disclosures would be required for pledges.

As presented previously in [Agenda Paper 4.3](#) at the March 2024 meeting, staff have developed illustrative examples on assessing loss of service potential as staff think it would be helpful for entities applying the proposed Tier 3 Standard.

Stakeholders have also indicated other examples that would be helpful for the following:

- (i) presentation of the statement of comprehensive income and statement of financial position or template financial statements;
- (ii) disclosure examples for basic and more complex financial instruments; and
- (i) derecognition of a financial liability when the obligation either expired or cancelled.

Staff do not recommend providing the above illustrative examples because:

- providing template financial statements within the proposed Tier 3 Standard would add unnecessary length to the Standard and may lead to entities applying the template financial statements as a boilerplate. However, given the Board's preliminary view indicated in paragraphs 4.7 – 4.8 of the DP was to develop template financial statements as a way to make the pronouncement easier to implement and may facilitate comparability between entities, staff suggest developing illustrative financial statements as part of further educational material for example in form of a Frequently Asked Questions (FAQ) document instead after the finalisation of the Tier 3 Standard. Staff will also consider developing flowcharts as part of the FAQ to assist entities in applying the proposed Tier 3 revenue recognition model or the requirements for consolidated and separate financial statement;
- the disclosures required for basic financial instruments are contained in paragraphs 10.24 – 10.26 of this draft ED which is based on AASB 1060 disclosures (paragraphs 113 – 115). Staff think these disclosures are self-explanatory and any additional disclosures would be based on management's judgement. As such, staff think developing illustrative examples may lead to boilerplate disclosures. Staff suggest including disclosure examples as part of an educational material instead;
- the guidance in relation to the derecognition of a financial liability when the obligation either expired or cancelled is within paragraph 10.22 for ceasing to record a financial liability when the obligation specified in the contract is discharged, cancelled or expires. Staff consider the guidance is self-explanatory and any illustrative example would simply be a journal entry which, in staff's view, is not needed; and
- stakeholders can provide feedback via this ED on any other illustrative examples that would be helpful.

Do Board members agree with the staff's drafting of non-mandatory illustrative examples in this section?

If not, what do Board members suggest?

Illustrative examples

These illustrative examples accompany, but are not part of, the Standard. They illustrate aspects of the Standard, but are not intended to provide interpretative guidance.

- IE1 The following examples portray hypothetical situations. They are intended to illustrate how a not-for-profit private sector Tier 3 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 Sections 12 and 15 due to physical obsolescence, reduction in external demand for goods or service or changed strategy.

Example A – Loss of service potential due to physical obsolescence

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 donations it receives are unpredictable, it can have a surplus of certain food items.

These food items may become limited in their use and so 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 assesses whether any purchased food items have suffered a loss of service potential from one of the events identified in paragraph 23.3 (which include that the inventories are perishable items that spoiled or became obsolete). A loss of service potential will not be identified for the food that was donated as if Entity A elected to measure the cost of the donated food at the cost to it (of nil). For those inventories that have been measured at an amount other than nil, as required by paragraph 12.4, Entity A estimates the amount that it will not be able to use in the food parcels, and reduces the carrying amount of the inventories by this amount, net of any expected sales proceeds, and records a corresponding expense.

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 course materials that are provided to all participants, and has sufficient stock for the expected life of the current course.

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

As a result of a change of government policy, the courses are no longer 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 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 course materials.

At the reporting date, Entity B assesses whether any inventories of the course materials have suffered a loss of service potential from one of the events identified in paragraph 23.3 (which include that the entity has been affected by a reduction in external demand for its goods or services and the entity's capacity to provide services might have been affected adversely as a result). As required by paragraph 12.4, Entity B estimates the amount of the course materials that it will not be able to use or sell before the course needs to be redeveloped, adjusts the carrying amount of its inventories of course materials in proportion to the amount it estimates will neither be used or sold, and records a corresponding expense.

Example C – Loss of service potential due to changed strategy

Entity C is a not-for-profit entity with activities that include operating a small animal shelter. Due to increased operating costs and difficulties in attracting suitable volunteers, the management of Entity C decided that operating the animal shelter is no longer viable, particularly in view of the entity's level of funding, and will cease shortly after the end of the reporting period. The recorded assets related specifically to the animal shelter

(the buildings, bedding, equipment and leashes) remained in good condition, and were not affected by physical obsolescence additional to that already accounted for in depreciation calculations. Entity C had accounted for those assets using the cost model in paragraph 15.10.

In accordance with paragraph 15.17, at the reporting date, Entity C assesses whether the capacity to provide services of any of its recorded assets related specifically to the animal shelter has been affected adversely as a result of the entity having changed its strategy. Because the answer to that question is yes, Entity C is required to review the residual value, depreciation method and useful life of the recorded assets related specifically to the animal shelter. Entity C concludes that (ignoring an immaterial brief period of use after the end of the reporting period) to account for the assets related specifically to the animal shelter as having no remaining useful life. In accordance with paragraphs 23.3 and 23.6–23.10, Entity C assesses those assets for potential impairment by comparing their carrying amount with their recoverable amount, that is, the higher of their fair value less costs to sell and value in use (which is fair value less costs to sell, because the assets have no future use to Entity C). In this instance, the residual value (reassessed in accordance with paragraph 15.17) and recoverable amount (assessed in accordance with paragraph 23.3) of each asset is the same amount, that is, fair value less costs to sell.

Entity C assesses that the equipment and leashes can readily be sold for an amount (net of selling costs) at least equalling their carrying amounts, and does not record an impairment loss in respect of them. It concludes that, due to their fixed location and the cost of demolishing them to sell their materials, the animal shelter buildings could not be sold. It also concludes that the used bedding could not be sold because of a lack of buyers and because its selling price would not exceed the cost of finding buyers. Therefore, Entity C concludes that the recoverable amount of the animal shelter buildings and bedding is nil and writes off those assets. Because those assets were not previously revalued, their carrying amounts were written off as an expense.

Long service leave provisions

IE3 Example D illustrates the measurement requirements in Section 24 on the provision for long-service leave to consider the likelihood that accumulating long-service leave entitlements will vest in the future. It does not require a probability-weighted estimate of the long-service leave provision; for example, a ‘most likely outcome’ estimate may be used.

Example D – Provisions for long-service leave

Entity D (a smaller NFP entity) incurs the following expenses for employee benefits and related on-costs during the reporting period. Being a public benevolent institution, Entity A is exempt from the 4.85% payroll tax that would otherwise be levied (which would be an additional on-cost). Entity D’s workers’ compensation insurance expense (often treated as an on-cost) is not part of its employee benefits. Some entities also treat their employee superannuation costs as an on-cost. However, because those costs are a form of consideration given in exchange for services rendered by employees, they form part of employee benefits (and, therefore, within the scope of Section 24) even if described as an on-cost.

The following amounts, including the percentages used, are assumed for illustrative purposes only and are not intended to indicate a required method of calculation or signify a benchmark percentage if the probability of vesting is formally estimated.

Nature of cost/calculation	Amount \$
Wages and salaries, excluding annual leave	664,620
Annual leave	<u>55,380</u>
Wages and salaries, including annual leave	720,000
Long-service leave (based on <u>an</u> estimated probability of 70% that current employees <u>yet to qualify; and 100% for those current employees that have qualified, will qualify</u> for vested long-service leave benefits)	8,400
Defined contribution superannuation plan expense at 11.5%	<u>83,780</u>

Nature of cost/calculation	Amount \$
Base for workers' compensation premium	812,180
Workers' compensation insurance premium at 1.8%	<u>14,620</u>
Total employee benefits expense and workers' compensation insurance expense	<u>826,800</u>

Revenue recognition

IE4 Examples E–H illustrate the requirements in applying Section 20 on how to record revenue with or without a deferred revenue obligation for:

- (a) fundraising activities;
- (b) grants to provide specified community services;
- (c) an untied grant internally designated to provide particular community services; and
- (d) a grant to construct an asset.

Example E – fundraising activities

Charity E generates revenue through two main fundraising activities: selling chocolates for cash and an annual gala event at which attendees receive entertainment and a meal. The next gala event will be held on 15 July 20X0. As at 30 June 20X0 (Charity E's reporting date), Charity E has sold 250 tickets for \$200 each (and received \$50,000).

Revenue from the sale of chocolates will be recorded when the chocolates are provided to customers, which occurs simultaneously with the cash sales, in accordance with paragraph 20.3(b), ie in the next financial year ending 30 June 20X1.

In accordance with paragraphs 20.3(a), 20.8(a) and 20.10 – 20.11, the \$50,000 proceeds from advance sales of tickets to the gala event are recorded as deferred revenue obligations (liabilities) to provide entertainment and a meal at the gala event. This is because Charity E and purchasers of the tickets to the gala event have a common understanding (based on publicity and details on the tickets) that, in return for the ticket proceeds, Charity E will perform in a particular manner (provide entertainment and a meal) resulting in the related expenditure of the cash proceeds. In accordance with paragraph 20.4, the liabilities recorded in accordance with paragraph 20.3(a) are measured at the same amount as the amount recorded for the sales proceeds. Thus, the entire amount of the sales proceeds is deferred as a liability until the gala event is held, even though there is an implicit (albeit unquantified) donation element included in the ticket price of \$200. As at 30 June 20X0, Charity E records a liability for the \$50,000 sales proceeds received in advance. In accordance with paragraphs 20.9 and 20.12, the revenue ceases to be deferred (ie is recorded in profit or loss) when the gala event is held (on 15 July 20X0).

Example F – grant to provide specified community services

Community Centre F applies for a grant to fund the provision of an IT training programme for the community members to be conducted on the Centre's premises for a two-year period commencing on 1 July 20X1, with the amount of the grant dependent on the number of sessions provided. The grant of \$45,000 is received on 15 May 20X1. In accordance with paragraphs 20.3(a), 20.8(a) and 20.10–20.11, the \$45,000 grant is recorded as a deferred revenue obligation (liability) to provide training services. This is because Community Centre F and the grantor have a common understanding (based on the approved grant application) that, in return for the grant, Community Centre F will perform in a particular manner (provide training) resulting in the expenditure of the grant money. In accordance with paragraph 20.4, the liability recorded in accordance with paragraph 20.3(a) is measured at the same amount as the amount recorded for the grant money. Thus, the \$45,000 grant is deferred as a liability until the training services are provided. As at 30 June 20X1, Community Centre F records a liability for \$45,000 for the grant, because the provision of promised training services had not commenced. In accordance with paragraph 20.9 and 20.12, the revenue ceases to be deferred (ie is recorded) progressively as the training services are provided, over the two-year period beginning on 1 July 20X1. Thus, as at 30 June 20X2, Community Centre F records a remaining liability of \$22,500 for the unperformed portion of the service obligation, determined based on the remaining number of training sessions.

For the financial year ending on 30 June 20X2, Community Centre F records grant revenue of \$22,500 for the training services provided.

Example G – untied grant internally designated for particular activities

In this scenario, the facts are the same as those described above in Example F, except that Community Centre G received a general purpose (untied) grant of \$45,000 on the same date, which its committee of management decided before 30 June 20X1 to expend on a two-year IT training programme to be conducted on the Centre's premises for its volunteers commencing 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 expenditure, transfer or using up of the grant money or other assets. Therefore, in accordance with paragraph 20.3, a deferred revenue obligation does not arise from receipt of the grant asset (cash) on 15 May 20X1 and Community Centre G records cash of \$45,000 and revenue for the same amount as at 15 May 20X1. Paragraph 20.14 states that internal expectations or decisions by those charged with governance about how or when an entity expects to use funds received from donations, grants and bequests are not relevant when determining whether a deferred revenue obligation of the entity exists.

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 paragraphs 20.3(a), 20.8(b) and 20.10 – 20.11, the \$180,000 grant is recorded as a deferred revenue obligation (liability) to construct a building extension. This is because Community Centre H and the grantor have a common understanding (based on the approved grant application) that, in return for the grant, Community Centre H will perform in a particular manner (construct a building extension) resulting in the expenditure of the grant money. In accordance with paragraph 20.4, the liability recorded in accordance with paragraph 20.3(a) is measured at the same amount as the amount recorded for the grant money. Thus, the grant is deferred as a liability until the construction occurs. As at 30 June 20X2, Community Centre H records a liability for \$180,000 for the capital grant, because the promised construction work had not commenced. In accordance with paragraph 20.9(b) and 20.12, the revenue ceases to be deferred (ie is recorded) progressively as the construction activities occur. In accordance with paragraph 20.26(c), Community Centre H uses judgement to determine the pattern of revenue recognition over the course of constructing the building extension. It concludes that the incurrence of costs of constructing the building extension provides a faithful representation of the stage of completion of the building extension. As at 30 June 20X3, the building extension works were almost complete. By that date, Community Centre H had spent \$150,000 of the capital grant money on works performed, and Community Centre H records grant revenue of \$150,000 for the financial year ending on 30 June 20X3.

Contingent assets

IE5 Example I illustrates the disclosure requirements in Section 19 for written pledges received

Example I – when disclosures would be required for pledges (contingent assets)

Before the end of the current reporting period, Charity I receives written pledges from corporate donors of \$200,000 to fund the building of water wells to provide cleaning drinking water in developing countries, in response to an appeal for donations for that explicit purpose. Based on its experience with previous pledged donations, Charity I estimates that the most likely amount it will receive is approximately 60% of the amount pledged (ie approximately \$120,000).

As at the end of the reporting period, no cash had been received, and in these particular circumstances Charity I did not have an enforceable right to the donors' pledges (amount receivable). Consequently, in accordance with paragraph 20.20, Charity I does not record any amounts receivable from those who pledged donations. However, Charity I has contingent assets in respect of the amounts pledged, 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 an uncertain future event (cash transfer) outside Charity I's control.

In accordance with paragraph 19.15, because an inflow from the pledged donations is probable, Charity I discloses as contingent assets its best estimate of the amount that will be received (\$120,000), including that the contingent assets are not recorded in the financial statements. Although there is not a specific requirement to disclose the accounting treatment of any future donations received, Charity I decides, in applying the general disclosure requirement in paragraph 2.2 to provide additional disclosures where necessary to achieve a fair presentation, to disclose that any of the pledged donations received in cash will be recorded as deferred revenue obligations (liabilities) to build water wells and recorded as revenue only when the wells are built. That treatment of the donations reflects that, in accordance with paragraphs 20.3(a) and 20.7–20.11, Charity I and its donors have a common understanding (based on Charity I’s appeal for donations and the written correspondence regarding the pledged donations) that, in response to those donations, Charity I will perform in a particular manner (building water wells) resulting in the expenditure of the donated cash.

Question 12 to Board members

As indicated in [Agenda Paper 4.3](#) at the March 2024 meeting when staff presented the working draft of the Tier 3 ED, in drafting the Basis for Conclusions (BCs), staff were conscious of the length of sections as staff considered Tier 3 preparers will mainly focus on the body of the Standard rather than the BC.

As such, staff have provided more explanation in drafting of the BCs of the Board's rationale for topics from paragraph BC15 where the Board provided:

- more simplification in R&M requirements and staff considered more explanation is warranted;
- a preliminary view of the DP and decided on a different approach, based on the feedback on the DP, in drafting the ED proposals. For these topics, staff provided the rationale on how the Board developed the preliminary views in the DP; and
- a preliminary view in the DP and received mixed views from stakeholders, but decided to proceed with its DP proposal in the ED. For these topics, staff provided the rationale on how the Board developed the preliminary views in the DP.

For topics where the Board decided to propose alignment with Tier 2 requirements except for language or where there was overall support from stakeholders and therefore the Board decided to proceed with drafting of the ED proposal based on its preliminary views in the DP, staff have grouped these topics under paragraph BC16 based on that rationale.

**Do Board members agree with the approach applied by staff in drafting the topics in paragraph BC16 as per above explanation versus the approach applied for other topics from paragraph BC17 onwards?
If not, do Board members prefer staff draft more Board's rationale in developing the ED proposals for each of the topics listed in BC16?**

Question 13 to Board members

The Board decided at its June 2024 Board meeting (refer to [minutes](#)) that it would include in the BCs the Board's rationale for not specifying any reporting thresholds for entities permitted to apply the Tier 3 Standard. Staff have drafted paragraphs BC122 – BC123 to reflect the Board's decisions in this regard.

**Do Board members agree with the draft paragraphs BC122 – BC123 sufficiently depicts the Board's rationale not to specify reporting thresholds for entities permitted to apply the Tier 3 Standard?
If not, what do Board members suggest?**

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 Tier 3 not-for-profit private sector 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 ED3XY *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* to respond to stakeholder concerns and research findings regarding the subject matter of its title. ED3XY proposes extending the application of AAS to a wider range of NFP entities and no longer predicating the applicability of a Standard on an entity’s identification as a reporting entity. ED3XY 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 1 July 20XX]; 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

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.

(such as by a constituting document) to prepare financial statements that comply with AAS.² This ED has been developed in conjunction with ED3XY 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) remain consistent with 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 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, being Tier 3 entities that might be permitted to prepare Tier 3 GPFS. 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 requirements

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

- (a) the development of Tier 3 reporting requirements is subject to the *AASB Not-for-Profit Entity Standard-Setting Framework*;
- (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 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 comparability of applying Tier 3 requirements across entities; and
- (e) developing reporting requirements that do not impose disproportionate costs for preparers when compared to the benefits of that information for financial statement users.

BC9 The Board also decided, to the extent consistent with the principles for developing the Tier 3 R&M requirements noted in paragraph BC8, with 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 requirements will:
 - (i) adopt appropriate disclosure requirements from other jurisdictions or frameworks with comparable R&M requirements; or

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

- (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)(i), 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 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 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 Accounting Standard, complemented by the International Non-Profit Accounting Guidance (INPAG) proposals and the New Zealand Tier 3 Standard. 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 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 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 (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 has 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 make changes to existing requirements specified by 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 and non-financial assets acquired for significantly less than fair value (see paragraphs BC105–BC108);

- (ii) property, plant and equipment and investment property, with simplified requirements for impairment of non-financial assets (see paragraphs BC109–BC113) and non-financial assets acquired for significantly less than fair value (see paragraphs BC105–BC108);
 - (iii) volunteer services;
 - (iv) going concern;
 - (v) offsetting of assets and liabilities; and
 - (vi) provisions, contingent liabilities and contingent assets;
- (e) 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
- (g) Base tax expenses on income tax payable, without any allowance for deferred tax assets or deferred tax liabilities.

The Board further deliberated on its preliminary views in the DP in deciding its proposals for this ED on the matters outlined in paragraphs BC17-BC133.

Stand-alone Standard

BC17 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 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 requirements do not provide guidance.

Topics scoped out from the Tier 3 Standard

BC18 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.

BC19 The Board outlined the following possible accounting topics it might not specifically address in the Tier 3 Standard:

- (a) Business combinations;
- (b) Share-based payment;
- (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.

- BC20 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.
- BC21 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 BC19. 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: they 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.
- BC22 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.
- BC23 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), to keep the design of the Tier 3 Standard outlined in paragraph BC19. The Board was also informed by Research Report 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.
- BC24 The Board reconfirmed its preliminary view not to develop any specific Tier 3 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

- BC25 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 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, to the extent they do not conflict with Tier 3 reporting requirements.
- BC26 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 requirements. In addition, referring entities directly to Tier 2 requirements would enhance comparability amongst Tier 3 entities and across tiers.
- BC27 While stakeholders generally agreed with the proposed approach in paragraph BC25 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.
- BC28 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 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

- BC29 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.
- BC30 Stakeholders expressed mixed views on the options presented in paragraph BC29. 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 enables 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.
- BC31 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

- BC32 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 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)

- BC33 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 from the provision of 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.

- BC34 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.
- BC35 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.
- BC36 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

- BC37 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 user 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.
- BC38 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.
- BC39 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; otherwise, a statement of income and retained earnings may be prepared instead.

Statement of cash flows

- BC40 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.

- BC41 In developing its preliminary views, the Board considered that the benefits of retaining from Tier 2 reporting requirements the 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.
- BC42 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 statements of cash flows.
- BC43 While most stakeholders supported the Board's preliminary view for the presentation requirements of the statement of cash flows presented in paragraph BC40, 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 19 that most Tier 3 entities apply the indirect method.
- BC44 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

- BC45 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.
- BC46 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 BC45, 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.

- BC47 Overall, the stakeholder feedback supported the Board's preliminary view on consolidation in paragraph BC46. 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.
- BC48 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 BC49–BC52) should enable users of the financial statements of Tier 3 entities to obtain GPFS, if available, of those notable relationship entities; and
 - (c) 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

- BC49 As noted in paragraphs BC46 and BC48, 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*.
- BC50 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).
- BC51 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:
- (c) 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
 - (d) 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).

BC52 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

BC53 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.

BC54 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 BC68, 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); 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.

BC55 The Board extended the scope of the preliminary view regarding measurement requirements in paragraph BC53 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

- (c) 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)).

BC56 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: *Consolidated and Separate Financial Statements*.

Accounting policies, estimates and errors

BC57 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 impact 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 *Accounting Policies, Changes in Accounting Estimates and Errors*, 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.

BC58 As an alternative to the approach described in paragraph BC57, 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 impact 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.

BC59 Overall, the stakeholder feedback supported the Board's preliminary view described in paragraph BC57 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.

BC60 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 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.

BC61 However, in response to the concerns expressed by these stakeholders, the Board also 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.

BC62 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

BC63 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

BC64 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

BC65 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 impact 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

- BC66 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.
- BC67 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

- BC68 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.
- BC69 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.

- BC70 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.
- BC71 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 BC109–BC113), 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

- BC72 Consistent with the Board’s approach described in paragraphs BC63–BC71, the Board proposed simpler disclosures compared to those required for Tier 2 entities as well as those required by the IFRS for SMEs Standard, reflecting the Board’s proposals regarding the R&M requirements for financial instruments.

Fair value measurement

- BC73 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.
- BC74 As an alternative to the approach described in paragraph BC73, 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. However, the Board was concerned that such valuation ‘shortcuts’ might not 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’.
- BC75 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 liability’s fair value, deeming historical cost to represent fair value often would not result in faithful representation of fair value. In addition, as noted in paragraph BC74, 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.
- BC76 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 BC77) and excluding guidance on the fair value hierarchy (see paragraphs BC80–BC82). 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 BC78 and BC79 and paragraphs BC83 and BC84. The Board’s reason for excluding the disclosure requirements about fair value measurements in AASB 13 is set out in paragraph BC85.

Highest and best use

Practical expedient

- BC77 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

- BC78 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.
- BC79 The proposed text in this ED that would replace paragraph 28(c) of AASB 13 is "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

- BC80 As noted in paragraph BC73, the DP (paragraph 5.117) 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 BC81–BC82, 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.
- BC81 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).
- BC82 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 BC85), it would not be proportionate to include the fair value hierarchy in the Tier 3 Standard.

Cost approach

- BC83 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.
- BC84 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

BC85 As noted in paragraph BC81, 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)

BC86 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 BC46 where the entity's subsidiaries are not consolidated.

BC87 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.

BC88 Most stakeholders agreed with the Board's preliminary views in the DP outlined in paragraph BC87 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 BC53).

BC89 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 BC55. 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 BC87. 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

- BC90 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.
- BC91 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 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.
- BC92 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 BC110(b)), since the last annual reporting date.
- BC93 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.
- BC94 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

- BC95 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 BC19. Stakeholders provided 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 or acquire other entities. After considering the stakeholder feedback, the Board decided to develop Tier 3 requirements regarding accounting for business combinations and goodwill.
- BC96 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 Combination* 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. 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, regardless of whether an entity is newly formed or a continuing entity upon the combination, an accounting policy choice to elect but not require an entity to present comparative information for the combined operations for the period prior to the combination date in the primary financial statements or in the notes. 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.

- BC97 As an alternative to the approach noted in paragraph BC96 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

- BC98 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 or an amended 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.

- BC99 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
- (c) 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.

- BC100 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

- BC101 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 common understanding of the manner in which the entity is expected to use 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.

BC102 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.

BC103 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.

BC104 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

BC105 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 BC73 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.

- BC106 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.
- BC107 Most stakeholders supported allowing an accounting policy choice outlined in paragraph BC105 as it caters for different entities' circumstances and the approach is a proportionate response for Tier 3 entities. However, some stakeholders disagreed with different aspects of the Board's preliminary view, where:
- (a) 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; and
 - (b) 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.
- BC108 The Board considered the feedback received and decided to propose, consistent with its preliminary view in the DP, an accounting policy choice described in paragraph BC105 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 BC107(b) 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

- BC109 The Board recognises the importance of including an 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.
- BC110 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; and
 - (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) non-financial assets that do not generate cash flows that are largely independent from other assets can be grouped into cash-generating units.
- BC111 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 BC109, 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.
- BC112 When forming its preliminary views, the Board considered alternative approaches to those described in paragraph BC110, 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.

BC113 Overall, stakeholder feedback supported the Board's preliminary views for a simplified impairment model described in paragraph BC110. 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 BC112 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 BC110(b) rather than including any additional indicators.

Employee benefits

BC114 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.

BC115 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.

- BC116 As an alternative approach to paragraph BC114, 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.
- BC117 Overall, stakeholders agreed with the Board's preliminary views noted in paragraph BC114. 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.
- BC118 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

- BC119 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.
- BC120 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.
- BC121 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.

Thresholds in Australian Accounting Standards

- BC122 The Board indicated its position in the DP that as a standard-setter its role is not to develop financial reporting thresholds in AAS because it views the establishment of appropriate reporting thresholds and any dictate of a specific form of GPFS to be more appropriately within the remit of the relevant legislation or regulatory authority. Consistent with its preliminary views in the DP and support from stakeholder feedback, the Board decided it is inappropriate to develop financial size thresholds in AAS on the grounds that:
- (a) size thresholds are arbitrary and there is no indication that a quantitative threshold would be workable when considering smaller NFP entities across Australia;
 - (b) size thresholds will become outdated over time and become incompatible with other regulatory requirements if they were to change; and
 - (c) there are already jurisdiction-specific thresholds prescribed by respective NFP regulators, which might lead to unnecessary complexity if the Board were also to develop thresholds, given NFP private sector entities may already need to navigate other existing criteria to establish their reporting obligations.
- BC123 The Board considered its proposal not to develop thresholds may increase judgement required for entities to determine the type of financial statements to prepare and may result in reduced comparability if Tier 3 entities can freely determine the type of GPFS to prepare. Therefore, an alternative to the approach considered by the Board (noted in paragraph BC122) is to develop guidance to help NFP private sector entities to determine which entities it would be appropriate to apply the Tier 3 Standard. The Board had regard to different quantitative and qualitative factors that might be included as guidance based on feedback from some stakeholders that quantitative thresholds alone may not be the best determinant. However, the Board did not proceed with developing any guidance because it considered appropriate to leave for legislation and regulation to determine which entities may be permitted to apply the Tier 3 Standard. Any guidance on thresholds in the Tier 3 Standard would represent an additional layer of complexity that smaller NFP entities would need to consider and might create further confusion regarding the interaction of such guidance with legislation and regulatory requirements. Ultimately, the Board developed the Tier 3 reporting requirements based on the ACNC revenue thresholds for medium-sized entities (ie entities with revenue of \$500,000 or more and less than \$3 million) as a reference point for identifying transactions and balances that might commonly be undertaken by entities that may apply the Tier 3 Standard and is not intended for it to act as any financial reporting thresholds to be included in AAS.

Updating Tier 3 reporting requirements

- BC124 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.
- BC125 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.
- BC126 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 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 9.3 and 9.4 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

- BC127 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 this Standard. Given the number of Tier 3 entities that may be impacted 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.
- BC128 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 BC17 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.
- BC129 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.
- BC130 The Board considered the approach in paragraph BC129 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 BC129(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 support for a smooth transition for Tier 3 entities.
- BC131 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 BC130 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

BC132 In proposing the effective date 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, in consideration that 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 transitional 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 may require a longer transition time period than usual for those NFP private sector entities that are not complying with Tier 1 R&M; and
- (c) in line its *Due Process Framework for Setting Standards*, the AASB seeks to ensure that stakeholders have adequate time to prepare for the implementation of new and amended Standards and, typically, the AASB will issue a Standard at least 2 years before its effective date.

BC133 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 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 early adopt this Standard. As such, 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.

Question 14 to Board members

Staff will update the draft Exposure Draft following this Board meeting for Board decisions at this meeting. Staff will continue to progress with its quality assurance process to finalise the Exposure Draft.

In line with the [AASB and AUASB Charter](#) (paragraph 6.20) and the [AASB Due Process Framework](#) (paragraph 7.4.4), the Board can delegate the approval of an Exposure Draft. At the time of issue of this Board paper and ahead of the Board deliberations at this meeting, staff are not aware of any significant further matter that would need the consideration of the full Board at a future meeting.

As such, considering all the Board's proposals in developing this ED (refer to Agenda Paper 3.4 for this meeting, which provides a summary of the Tier 3 ED proposals compared with Tier 2 requirements), staff recommend that the Board delegates to a Subcommittee the finalisation of, and approval to issue, the ED. The staff recommendation is consistent with the staff recommendation in Agenda Paper 5.1 for this meeting for the Board to delegate to a subcommittee the finalisation of, and approval to issue, ED 3XY *Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*.

Do Board members agree with the staff recommendation to delegate to a Subcommittee the finalisation of, and approval to issue, the ED?

If not, how would Board members like to proceed with finalising the ED?