

# FACTSHEET 3 (version 2) CONSIDERATIONS WHEN PREPARING SPECIAL PURPOSE FINANCIAL STATEMENTS IN AUSTRALIA

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## Introduction

This factsheet is a brief guide to the continuing place of special purpose financial statements (SPFS) in Australia's financial reporting framework in light of the framework reforms in both the for profit and not for profit sector currently being implemented by the Australian Accounting Standards Board (AASB).

It has been developed jointly by CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) to ensure our members and other stakeholders understand the AASB's changes and can identify if they need to alter their current financial reporting practices.

## What has happened?

In March 2020, the AASB released [AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities \(AASB 2020-2\)](#).

Compliance with this standard means that the preparation and lodgement of an SPFS can no longer be an option for **large for-profit companies** and some other **for-profit entities** who have legislative or other reporting requirements that require compliance with Australian Accounting Standards (AAS) or, in some cases the more generic term of 'accounting standards'. AASB 2020-2 applies to financial years beginning on or after 1 July 2021, i.e. for financial years ending 30 June 2022 and beyond. Early adoption of the reforms is encouraged via beneficial transitional provisions that are only available to those who choose this option.

## Who isn't impacted by AASB 2020-2 – i.e. may still be able to prepare special purpose financial statements?

Entities that are **not** affected by these changes include:

- entities reporting under legislation which requires the preparation of:
  - financial information and not financial statements, such as friendly societies, retirement villages, superannuation funds and some incorporated associations
  - financial statements that are not required to comply with either AAS or accounting standards, such as gaming venue operators and internet gaming licensees.
- small proprietary companies which do not have any financial reporting lodgement requirements under Chapter 2M.3 of the Corporations Act 2001. Exceptions include those who are foreign controlled, crowd source equity funded or small proprietary companies preparing financial reports at the request of ASIC or shareholders as they are within the scope of AASB 2020-2. The [thresholds defining a large proprietary company](#) were doubled for financial years beginning on or after 1 July 2019 and a large company is now one that meets two of the following three criteria:
  - consolidated revenue of \$50 million
  - consolidated gross assets of \$25 million
  - 100 employees.
- entities whose reporting requirements are contained in non-statutory documents (such as in a constituting or other governing document). Such entities include self-managed superannuation funds (SMSFs), trusts, partnerships and joint arrangements. However, if those governing documents are created or amended after 1 July 2021 and include, or retain, a requirement for the financial statements to comply with AAS (but not 'accounting standards'), then they are captured by AASB 2020-2.
- private sector NFPs whose reporting requirements will be the subject of a separate consultation later this year. More information on this reform program can be found in our [NFP fact sheet](#) and in the [AASB project summary](#)
- public sector entities whose reporting framework requirements will be considered once the NFP reform proposals are complete. For more information, see the [AASB project summary](#).

More details on the scope of AASB 2020-2 can be found in the [AASB's Key facts on AASB 2020-2](#) and [AASB 2020-2 paragraph BC93](#). Entities that are impacted by AASB 2020-2 can find more information on their new reporting requirements and transition options in the CA ANZ/ CPA Australia [For profit framework reporting reform fact sheet](#).

### **Can unaffected entities still prepare special purpose financial statements?**

The directors, owners or others charged with governance of entities not impacted by AASB 2020-2 can still prepare SPFS to meet their legislative or other obligations to keep adequate books and records, demonstrate adequate discharge of duties and to meet their taxation obligations. These SPFS can also be used to provide other necessary financial information for internal financial management purposes, to comply with bank financing and other arrangements or for due diligence including sale/purchase of businesses.

However, the preparation of an SPFS presumes that the report is being specifically tailored to the needs of users and that it does meet those needs. Where the needs of users are more diverse, and/or they cannot demand inclusion of the information they require, a GPFS may be a more suitable option.

### **How do I ensure special purpose financial statements are still appropriate for a particular entity?**

An entity's directors, owners or others charged with governance are responsible for determining the appropriateness of the preparation of SPFS in the specific circumstances of the entity. This decision should be reassessed and documented at every reporting period in order to demonstrate that user needs have been considered.

If the entity is still preparing an SPFS under reporting requirements that include compliance with accounting standards, reference should be made to SAC 1 *Definition of the Reporting Entity* for more specific guidance. It remains an operative pronouncement for these entities and states that an SPFS should only be used by 'non-reporting entities' who do not have users dependent on general purpose financial statements (GPFS) to satisfy their information needs (see paragraph 19 of SAC 1). Typical financial statement users are shareholders, creditors and lenders but may also be employees or other third parties impacted by the entity.

Significant factors in identifying the existence of users and their needs, as explained in paragraphs 19-22 of SAC 1 include:

- the degree of separation of ownership and control,
- the economic or political influence the entity has on third parties, and
- its financial characteristics.

It is possible that changes to any of these factors can occur at any time and therefore annual reassessment of the entity's non-reporting entity status is required by paragraph 28 of SAC 1. If the financial statements are audited, then this decision will also be reviewed by the auditors in forming their opinion.

### **What information should special purpose financial statements contain?**

Subject to some legislative requirements discussed below, the form and content of SPFS remains a matter for the entity's directors, owners or others charged with governance and should be tailored to meet the needs of its users.

However, companies lodging under the Corporations Act (including companies limited by guarantee and large proprietary companies not early adopting AASB 2020-2) are still required to apply some AAS in their financial reports. So too are charities lodging with the ACNC. These minimum requirements are AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting*

*Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards* and AASB 1054 *Australian Additional Disclosures*. Corporations Act entities should also consider the Australian Securities and Investments Commission (ASIC) Regulatory Guide 85 *Reporting requirements for non-reporting entities* when preparing SPFS.

In addition, for financial years ending on or after 30 June 2020 NFP entities that are required to comply with AASB 1054 will need to make the additional disclosures imposed by [AASB 2019-4 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements](#). These disclosures relate to the basis of the decision to prepare SPFS and the extent to which the SPFS complies with the recognition and measurement requirements of AAS. The disclosures are being introduced to ensure users, including regulators can clearly identify and understand the bases on which the SPFS is prepared. For more details see our [NFP fact sheet](#).

Additional disclosures are also being proposed for those entities with reporting requirements in non-statutory documents (such as in their constituting or other documents) drafted before 1 July 2021 that specify compliance with “Australian Accounting Standards.” These entities include trusts, partnerships and joint arrangements (those that are the subject of the exemption in AASB 2020-2).

While they can continue to prepare SPFS, the AASB decided late last year (see [November AASB Action Alert](#)) to make amendments to AASB 1054 that will require them to disclose information about the accounting policies applied in those SPFS, along with information about the extent of compliance or otherwise with the recognition and measurement requirements in Australian Accounting Standards. The purpose of the amendments is to ensure the basis of preparation is clear where an entity asserts compliance with Australian Accounting Standards in its SPFS.

As of the date of this publication, an amending Standard is still being developed and has not yet been issued but the disclosures are expected to apply to reporting periods beginning on or after 1 July 2021.

In addition to these requirements CA ANZ/CPA Australia members who are involved in the preparation or audit of SPFS have professional obligations around required disclosures in these reports under [APES 205 Conformity with Accounting Standards](#). Auditors involved in the audit of SPFS should also consider the guidance provided by the AUASB Bulletin [Auditor’s Responsibilities and the Financial Reporting Framework](#).

### **Is adoption of Australian Accounting Standards mandatory if special purpose financial statements are to provide a “true and fair view”?**

Compliance with AAS is only mandatory for the preparation of a GPFS, or where they are specifically referenced in a legislative or other reporting requirement. The AASB, when finalising the scope of AASB 2020-2 decided not to mandate compliance with AAS when financial reporting requirements only refer to preparation of financial statements that are “true and fair” (see paragraph BC77 of AASB 2020-2).

Therefore, complying with AAS in SPFS that purport to present a “true and fair” view remains a matter of professional judgement for those involved in the preparation and audit of those financial statements. Such judgement should take into account the specific information needs of the users of the financial information and whether such needs are being met through the financial information presented in the SPFS.

AAS are based on IFRS, which have been primarily formulated to meet the general needs of a wide range of users in the world’s capital markets. This focus can result in the AAS prescribing recognition, measurement and disclosure requirements that are more complex than may be appropriate for an entity with a small group of identified users. The AASB’s NFP framework reform project is currently addressing these concerns and is considering the possible implementation of simplified recognition and measurement requirements for smaller NFP entities that would better reflect their specific reporting needs. The Federal

Government response to the ACNC legislative review has also recommended threshold reform that will ensure reporting requirements are more appropriately targeted to an organisation's size than is currently the case.

### More information

- [Relevant information published on the AASB website:](#)
  - [AASB NFP framework reform project](#)
  - [AASB webinars on the removal of SPFS \(Part 1, Part 2 and Part 3\)](#)
- [AUASB Bulletin \*Audit considerations on the removal of special purpose financial statements for certain for-profit private sector entities\*](#)
- CA ANZ website – [Australian framework reform](#) and [Q&A: Illustrative financial reports](#)
- CPA Australia [financial reporting professional resources](#)
- [AASB NFP framework reform project](#)
- [Federal Government ACNC legislation review response](#)

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