

FACTSHEET 2 (Version 2)

IMPORTANT CHANGES TO THE AUSTRALIAN FINANCIAL REPORTING FRAMEWORK FOR NOT-FOR-PROFITS

JUNE 2021

Introduction

This factsheet is a quick guide to the decisions of the Australian Accounting Standards Board (AASB) on its reporting framework reform project for not-for-profit (NFP) entities. This project began in 2019 and has as its objective the development of a simple, proportionate, consistent and transparent financial reporting framework for all not-for-profit (NFP) private sector entities in Australia.

CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) have jointly developed this factsheet to inform members and stakeholders in the NFP sector.

Overview

To date, the AASB has been principally focused on its for-profit framework reform, but however has made several NFP focused changes during this time. These reforms, which are discussed in more detail below, have introduced:

- additional disclosure requirements for certain NFPs preparing special purpose financial statements (AASB 2019-4)
- a significantly simplified disclosure framework for NFPs already preparing Tier 2 general purpose financial statements (GPFS) (AASB 1060)

The for-profit reform project is now concluded and operational for years ending 30 June 2022, meaning the AASB is now focusing on the broader aspects of its new NFP framework. It is this work that will impact the ability of some NFPs to prepare SPFS going forward, removing the Statement of Accounting Concepts 1 *Definition of the Reporting Entity* (SAC 1) for this sector. In its place will be new requirements to prepare GPFS that will more clearly specify the content of the financial statements many NFPs are required to prepare. An initial draft of these proposed reforms is expected to be open for public consultation later this year.

The AASB was also proposing to introduce a new definition of the term “not for profit” but has since decided to discontinue this project and continue with the extant NFP definition.

Phase 1 - Revised Disclosures

In December 2019 the AASB issued [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](#). This standard requires that NFPs preparing SPFS that are required to comply with AASB 1054 *Australian Additional Disclosures* (e.g. charities registered with the Australian Charities and Not-for-profits Commission or public companies limited by guarantee) now disclose information about compliance with all the recognition and measurement requirements in Australian Accounting Standards (AAS). These requirements are effective for annual periods ending on or after 30 June 2020.

In March 2020, the AASB released [AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities \(AASB 1060\)](#). AASB 1060 applies to financial years beginning on or after 1 July 2021, i.e. full financial years ending 30 June 2022 and beyond. Early adoption is permitted.

AASB 1060 introduces a new simplified disclosure package where all the disclosure requirements relevant to a Tier 2 GPFS are contained in a single standard. The disclosures in this Simplified Disclosures Standard (SDS) are based on the disclosure requirements of the IASB’s IFRS for SME’s standard and have been significantly modified when compared to either the disclosures required by a Tier 1 entity or to the disclosures required under the AASB’s existing Tier 2 Reduced Disclosure Regime (RDR) under AASB 1053 “*Application of Tiers in Australian Accounting Standards*”.

As the new Tier 2 requirements based on AASB 1060 will replace the current Tier 2 requirements based on RDR, all NFP (private and public sector) entities that currently prepare Tier 2 GPFS will be required to transition to these new requirements. To assist any NFP entities wishing to early adopt the new Tier 2 SDS regime, AASB 1060 has recently been updated by [AASB 2021-1: Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities](#). This amendment provides those NFPs transitioning to SDS from RDR with optional relief from presenting comparative information in the notes to the financial statements where the entity did not disclose the comparable information in its most recent GPFS.

AASB 1060 does not apply to entities that prepare Tier 1 GPFS. It also does not apply to NFPs that prepare SPFS as they are not impacted by the issue of [AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities](#) (AASB 2020-2) which was approved at the same time as AASB 1060. For more information on AASB 2020-2 please refer to our [Factsheet – Important changes to the Australian financial reporting framework](#).

Phase 2 - Broader framework reform

Since the removal of SAC 1 through AASB 2020-2 only impacts for profit entities, SAC 1 **continues to remain in force** for private and public sector NFPs, allowing them to continue to prepare SPFS for the immediate future.

However, this situation will change once the AASB completes the development of its new differential reporting framework for private sector NFPs. This new framework will prescribe a Tier 3 reporting level with simplified recognition, measurement and disclosure requirements suitable for this sector, enabling the removal of SAC 1 and applying the IASB's new Conceptual framework to the NFP sector.

A discussion paper on its proposals is expected to be released for public consultation in late 2021. The proposals are likely to be in the form of a separate stand-alone standard offering simplified recognition measurement and disclosure. The standard also is expected to include application guidance, implementation guidance and template financial statements. More information can be found in the [AASB's NFP Project summary](#) and AASB [June 2021 Action Alert](#).

The AASB also began conducting targeted outreach during 2020 on the development of the public sector framework but has not indicated when a formal public consultation process will take place. More information can be found in the AASB's [Public Sector Financial Reporting Framework project summary](#).

Other Developments – Increase in the ACNC reporting thresholds

Charities lodging financial reports with the ACNC also need to be aware that [charity reporting thresholds are being increased](#) in response to recommendations from the ACNC legislative review.

Under the amended thresholds, which apply for 30 June 2022 year ends and beyond, a charity will be considered

- **small** if it has revenue of less than \$500,000 (previously \$250,000)
- **medium** if it has revenue of between \$500,000 and \$3,000,000 (previously between \$250,000 and \$1,000,000)
- **large** if it has revenue of more than \$3,000,000 (previously \$1,000,000)

There has been no change to the reporting and audit requirements for each of these tiers, with small charities only needing to lodge an Annual Information Statement (AIS), medium charities an AIS and an audited or reviewed annual report, and large charities an AIS and an audited financial report. There has also been no change to the ACNC policy regarding the lodgement of SPFS in satisfaction of its reporting requirements. Charities can continue to lodge SPFS if they meet SAC 1 criteria to do so.

In addition,

- the 2022 AIS (30 June 2022 year ends onwards) will require large charities with two or more key management personnel to report remuneration paid to responsible persons (e.g. directors) and senior executives on an aggregated basis and
- the 2023 AIS (30 June 2023 year ends onwards) will require all charities to report related party transactions in their annual reporting to the ACNC.

The ACNC will work with the charity sector to develop the necessary guidance and support material to implement these changes.

More information

- Relevant information published on the [AASB website](#):
 - [AASB 2020-2](#) and supporting [fact sheet](#)
 - [AASB 1060](#) and supporting [fact sheet](#)
 - [AASB 2019-4](#) and supporting [fact sheet](#).
 - [AASB staff paper Modifications to Australian Accounting Standards for NFP entities](#)
 - [June 2021 Action Alert](#)
- AUASB bulletin [Audit considerations on the removal of special purpose financial statements for certain for-profit private sector entities](#)
- [Treasury Media release on ACNC thresholds](#)

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This factsheet was prepared by CPA Australia ABN 64 008 392 452 (CPAA) and Chartered Accountants Australia and New Zealand ABN 50 084 642 571 (CA ANZ).

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