CAN I STILL PREPARE SPECIAL PURPOSE FINANCIAL STATEMENTS?

A GUIDE TO NAVIGATING THE NEW FOR-PROFIT FINANCIAL REPORTING FRAMEWORK IN AUSTRALIA

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CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

HLB MANN JUDD
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This guide has been developed jointly by CPA Australia, Chartered Accountants Australia and New Zealand (CA ANZ) with the assistance of HLB Mann Judd.

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ACKNOWLEDGEMENTS

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FOREWORD

Over the last five years the Australian Accounting Standards Board (AASB) has been reshaping the financial reporting landscape, with the aim of creating "a simple, objective, comparable, transparent and enforceable financial reporting framework".[1]

CA ANZ and CPA Australia have been actively engaged with both our members and the AASB on this reform journey to ensure that the final outcomes are appropriately targeted and proportionate in nature. Our members and other stakeholders provided significant feedback during this process, resulting in reform that we expect will strike the right balance between preparer costs and user needs.

For some for-profit entities, the reforms mean they must transition away from preparing special purpose financial statements (SPFS) to preparing general purpose financial statements (GPFS). These GPFS must comply with the recognition, measurement, presentation and disclosure requirements of the Australian Accounting Standards (AAS) developed and issued by the Australian Accounting Standards Board (AASB). However, the need to appropriately and proportionately target the reforms in the face of the varied wording of the enormous raft of legislative and other reporting requirements has made defining the exact scope of the reforms complex.

CA ANZ and CPA Australia have therefore jointly prepared this guide to assist our members as they transition to the new reporting framework or where they are assisting and advising others to do so. Importantly, the guide also assists in identifying circumstances where there is no change to current financial reporting practices.

It provides an overview of the reforms, including a helpful flowchart that is accompanied by a more detailed discussion of how the changes affect a wide variety of impacted entity types.

Coupled with the resources prepared by the AASB and others, which are listed at the conclusion of this guide, we hope that it will ease the transition process as we move towards a more consistent and comparable for-profit reporting framework.

The guide will also be useful for private sector not-for-profit entities (NFPs), by explaining the impact of the initial stages of the for-profit reforms on NFP financial reporting, especially those who are currently preparing Tier 2 GPFS. The broader reform proposals for the NFP sector are a major focus for the AASB's 2022/23 work program and CA ANZ and CPA Australia will continue to seek feedback from, and advocate on behalf of, our members as the NFP financial reporting framework project develops.

CA ANZ and CPA Australia would like to thank the technical team at HLB Mann Judd for their assistance in drafting this publication, and our members who have provided additional technical support.

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[1] Key facts: AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities.

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INTRODUCTION

1. The AASB's for-profit financial reporting framework has transformed the place of special purpose reporting in Australian financial reporting for financial years ending 30 June 2022 and beyond.
2. As noted in our Foreword, the purpose of the AASB reforms was to create "a simple, objective, comparable, transparent and enforceable financial reporting framework".[2] In doing so their focus was on ensuring that where users, including legislators, specified that financial statements be prepared in accordance with Australian Accounting Standards (AAS) (or "accounting standards" in some instances), it was clear to preparers just exactly what those general purpose financial statements (GPFS) should contain.
3. In developing these reforms, it was important to ensure that the reforms only applied to entities with a recognised user need for GPFS, a process that has resulted in a need for precise, and therefore complicated, application clauses.
4. In order to get the most benefit from this guide, entities need to be aware of and understand their existing financial reporting obligations (statutory or otherwise), the type of financial statements they are currently preparing to satisfy these requirements and why this report type is being prepared. They can then use this guide to understand whether SPFS are still appropriate in these circumstances, or whether they are within the scope of these reforms and therefore must now prepare GPFS.
5. In particular the guide includes a **flowchart**, identifying the key decision points that impact the scope of the reforms, with the guide then providing more detail on the various alternatives and their implications.

BACKGROUND

6. The AASB released two new standards in March 2020 to operationalise the AASB's revised reporting framework for for-profit entities:
   - AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities (**AASB 2020-2**); and
   - AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities (**AASB 1060**).
7. Both these standards are mandatory for financial years beginning on or after 1 July 2021 with early adoption permitted.

[2] Key facts: AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities.

8. While AASB 2020-2 was issued as a standalone amending standard in 2020, its requirements have since been compiled into the various pronouncements that have been impacted by its changes. Updated versions of these pronouncements, which are also mandatory from 1 July 2021, can be found on the **AASB website**. These standards are:
   a) the Conceptual Framework for Financial Reporting (May 2019)
   b) the Framework for the Preparation and Presentation of Financial Statements (July 2004)
   c) Statement of Accounting Concepts 1 Definition of the Reporting Entity (August 1990) (SAC 1)
   d) AASB 1 First-time Adoption of Australian Accounting Standards (July 2015)
   e) AASB 10 Consolidated Financial Statements (July 2015)
   f) AASB 1048 Interpretation of Standards (December 2017)
   g) AASB 1053 Application of Tiers of Australian Accounting Standards (June 2010) (AASB 1053); and
   h) AASB 1057 Application of Australian Accounting Standards (July 2015).
9. The key change introduced by AASB 2020-2 is that entities within its scope are no longer able to use SAC 1 to determine whether they can prepare SPFS. Previously an entity could use SAC 1 to determine if it was a reporting entity or not, based on an assessment of whether there are users of its financial statements that were "dependent on general purpose financial statements for information for making and evaluating resource allocation decisions"[3]. If the entity was not a "reporting entity" then SAC 1 permitted the preparation of SPFS rather than GPFS.
10. The alteration to the scope of SAC 1 means that for affected entities, the minimum reporting requirements are now GPFS. However, they are not required to transition to Tier 1 GPFS, which involves the application of all the recognition, measurement, presentation and disclosure requirements of AAS.
11. Instead, they are required to transition to preparing Tier 2 GPFS which must comply fully with only the recognition and measurement requirements of the transaction specific AAS, including consolidation and/or equity accounting, where applicable. These requirements are identical to the requirements that are already being applied by entities preparing Tier 2 GPFS under the AASB's Reduced Disclosure Requirements (RDR) framework (AASB 1053) which came into force in 2013.
12. Where Tier 1 and Tier 2 GPFS differ is in the area of disclosures. As part of the reforms the AASB has provided additional disclosure relief via the requirements of AASB 1060. This standard is referred to as the AASB's Simplified Disclosure Standard (SDS) and sets out disclosure requirements for each key element of the financial statements. These disclosures have been determined using the requirements of the International Accounting Standards Board's (IASB's) IFRS for SMEs standard and follow this standard even more closely than the previous RDR framework. Key areas where disclosures have been simplified when compared to RDR include revenue, leases, impairment and financial instruments.

[3]SAC 1 paragraph 12.

13. What this means is that, when preparing Tier 2 GPFS, entities need to refer to the applicable accounting standards for the recognition and measurement requirements and then refer to AASB 1060 for the related disclosures that need to be included in the financial statements. For example, AASB 116 Property, Plant and Equipment contains the recognition and measurement provisions for fixed assets, but AASB 1060 is the appropriate standard to refer to for the related fixed asset disclosures.

14. In order to avoid multiple Tier 2 disclosure regimes, SDS replaces RDR from 1 July 2021.

SUMMARY OF CHANGES

15. The result of the introduction of AASB 2020-2 is that certain for-profit entities must now prepare GPFS rather than SPFS to satisfy their reporting requirements. At the same time, AASB 1060 introduces a new Tier 2 GPFS framework that will replace:

    - SPFS prepared by those for-profit private sector entities captured by AASB 2020-2, and
    - the existing Tier 2 RDR framework.

16. In addition, the AASB has introduced additional disclosure requirements for some for-profit entities that, despite the reforms, will still be able to continue to prepare SPFS. These disclosures are contained in **AASB 2022-4 Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities**. They require the SPFS to include disclosures that inform users of the basis upon which they have been prepared and apply for financial years ending on or after 30 June 2022. For more details see paragraphs 39 to 42.

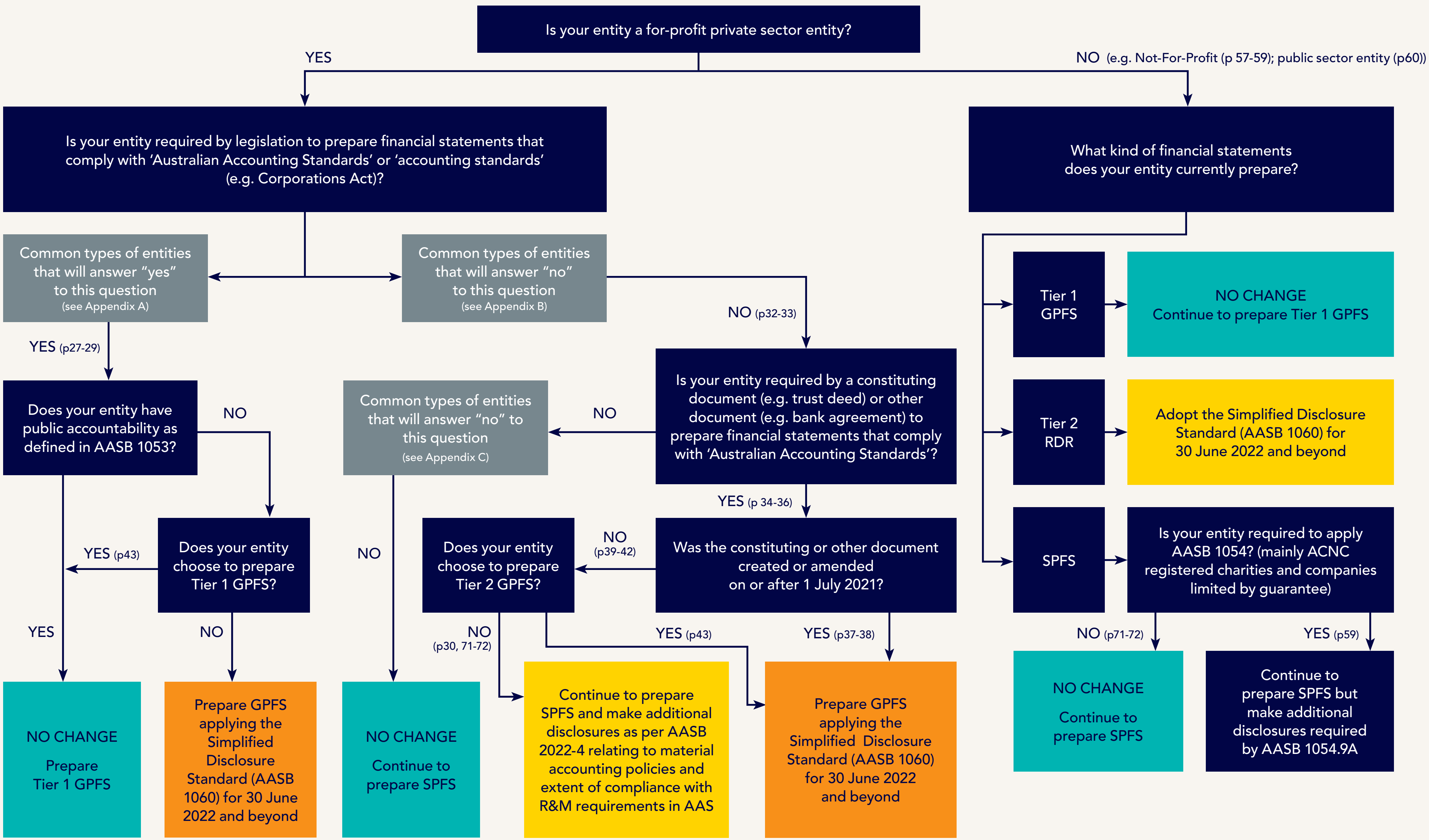
EFFECTIVE DATE OF CHANGES

17. As noted above, the changes introduced by AASB 2020-2, AASB 1060 and AASB 2022-4 apply mandatorily to financial years beginning on or after 1 July 2021 i.e., for financial years ending 30 June 2022 and thereafter.

IMPLEMENTING THE CHANGES

18. Successful implementation of the AASB's new for-profit reporting framework requires a careful analysis of an entity's existing financial reporting requirements and practices to determine whether they are within the scope of these changes and the extent of the impact. We have endeavoured to identify in the following flowchart, the key decision points involved in this process and the implications of those decisions. However, depending on the characteristics of the entity, the answers to the questions could be nuanced and so, in the remaining sections of the guide we have identified some of the key issues associated with each decision point that should assist with the analysis. References from the flowchart to the relevant supporting paragraphs are included.

FLOWCHART TO ASSESS THE IMPACT OF THE CHANGES TO THE AASB'S FOR PROFIT REPORTING FRAMEWORK (APPLICATION OF AASB 2020-2 AND AASB 1060)



IDENTIFYING THE SCOPE OF THE REFORMS

19. The entities that are within the scope of the AASB's reporting framework reforms are detailed in new paragraph 2A of SAC 1. This amendment means that the provisions regarding the use of the "reporting entity concept" no longer apply to:

    a) **for-profit private sector entities** that are required by **legislation** to **prepare financial statements** that comply with either **Australian Accounting Standards** or **accounting standards**; and

    b) other **for-profit private sector 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 after 1 July 2021**; and

    c) other for-profit entities (private sector or public sector) that **elect to prepare general purpose financial statements**.

20. The phrases highlighted in bold in the above paragraph represent key aspects of the changes to the scope of SAC 1 that readers need to understand and apply to the specific circumstances of their entity. The impact of these important aspects is discussed in more detail in the paragraphs that follow.

FOR-PROFIT PRIVATE SECTOR ENTITIES

21. It is important to note that only "for-profit" entities are currently within the scope of the AASB's reporting framework reform. The reporting requirements for NFPs are currently being reviewed by the AASB and it is expected that the AASB will release a consultation on the proposed changes later this year. Similar reforms are planned for the public sector in future years.

IDENTIFYING WHICH FOR-PROFIT ENTITIES ARE IMPACTED

22. As noted earlier, the impact of these reforms has been very carefully targeted to ensure that they only impact financial statements for which there is a genuine user need for higher quality and consistent financial information. Consequently, while some entities will no longer be able to prepare SPFS, other entities will be able to continue to prepare SPFS (possibly with some additional disclosures).

23. In considering whether these changes will impact an entity's financial reporting practices, for-profit entities will need to review the source of their reporting requirements and practices to determine whether they are legislative (e.g., Corporations Act) or non-legislative (e.g., a trust deed or a bank agreement) in nature. This examination is necessary as the impact of the reforms differs depending on whether the reporting requirements are legislative or non-legislative, consistent with the objective of ensuring the reforms are appropriately targeted. These differences are discussed below.

PREPARING FINANCIAL STATEMENTS

24. The first key words to look for in both legislative and non-legislative reporting requirements is the obligation to prepare "financial statements". A reporting requirement or practice that does not refer to the preparation of "financial statements" is not within the scope of these reforms. Examples of such wording would include "preparing financial information", "keeping accounting records" or "preparing a single financial statement" (eg a turnover statement).

25. However not all requirements that include the words "financial statements" are captured either. If the reporting requirements only refer to the need for these statements to give a "true and fair view" then this in itself is not sufficient to include the entity within the scope of the reforms.

26. Requirements that mention "financial report" are also not within the scope of the reforms, unless the term "financial report" is defined as including "financial statements" such as occurs in section 295 of Chapter 2M of the Corporations Act 2001.

LEGISLATIVE REQUIREMENT TO PREPARE FINANCIAL STATEMENTS IN ACCORDANCE WITH ACCOUNTING STANDARDS

27. If for-profit entities have a legislative requirement to prepare financial statements and the legislation states that these financial statements must be prepared in accordance with "Australian Accounting Standards" or "accounting standards", then they are within the scope of the reforms.

28. The reporting requirements of Chapter 2M of the Corporations Act 2001 are a common legislative requirement that is affected as section 296(1) of the Corporations Act requires that "the financial report for a financial year must comply with the accounting standards". However, it is important to note that any legislation that requires preparation of financial statements in compliance with "Australian Accounting Standards" or "accounting standards" will be within the scope of these changes. This includes State or Territory legislation that imposes a requirement to prepare financial statements where the specific words discussed above are used.

29. Examples of for-profit entities that are within the scope of the reforms include:

    a. large proprietary companies[4] (including grandfathered companies)

    b. unlisted public companies (other than those limited by guarantee)

    c. Australian Financial Service Licensees (AFSLs)

    d. small proprietary companies that are foreign controlled (where they do not have relief from preparing financial statements)

    e. small proprietary companies directed by ASIC to prepare a financial report (which must include **financial statements**)

    f. small proprietary companies directed by more than 5% of shareholders to prepare a financial report (which must include financial statements) (see paragraph 54).

    g. small proprietary companies with crowd-sourced funding

    h. co-operatives

    i. mutuals

    j. higher education providers

    k. incorporated associations that are for-profit entities

    l. indigenous corporations that are for-profit entities.

[4] The thresholds defining a large proprietary company were doubled from financial years beginning on or after 1 July 2019. A large company is now one that meets two of the following three criteria:
- consolidated revenue of $50 million or more
- consolidated gross assets of $25 million or more
- 100 employees or more.

30. Examples of entities that are not within the scope of the reforms include:

    a. small proprietary companies that do not have a statutory requirement under Part 2M.3 of the Corporations Act 2001 to prepare a financial report. Exceptions include those specific types of small proprietary companies discussed in the above paragraph

    b. public companies limited by guarantee (because of their usual "not-for-profit" status)

    c. entities reporting under legislation which requires the preparation of financial information (as opposed to financial statements), such as friendly societies, retirement villages and some incorporated associations

    d. entities reporting under legislation that requires the preparation of financial statements or financial reports that are not required to comply with either AAS or accounting standards, such as SMSFs, gaming venue operators and internet gaming licensees.

31. The list above is not intended to be exhaustive but includes the most common types of for-profit entities. The **AASB's Research Report 10 Legislative and Regulatory Financial Reporting Requirements** was developed by the AASB in 2019 to get a better understanding of the numerous legislative financial reporting requirements that exist in Australia and to assist the AASB in determining the scope of the reforms. Readers may wish to refer to Research Report 10 if their circumstances are not specifically reflected in this guide.

NON-LEGISLATIVE REQUIREMENTS OR PRACTICES INCLUDING REQUIREMENTS SET OUT IN CONSTITUTING OR OTHER DOCUMENTS

32. The reporting requirements for some entities are not driven by legislation but by non-statutory documents. A non-statutory document in this context refers to any constituting document such as a trust deed, partnership agreement or joint venture agreement. It also refers to other documents that could contain financial reporting provisions such as a bank facility agreement, loan agreement or grant agreement.

33. Examples of entities that fall within this category can include trusts, sole traders, partnerships and joint arrangements. Even entities such as small proprietary companies that have no legislative requirement to prepare financial statements will need to consider other non-legislative requirements such as those discussed above in determining the impact of these changes on their financial reporting requirements or practices.

REFERENCE TO "ACCOUNTING STANDARDS" OR "AUSTRALIAN ACCOUNTING STANDARDS"

34. One of the key factors that determine whether these types of entities are included within the scope of these reforms is the specific wording of the reporting requirements contained in the relevant non-statutory documents.

35. In this regard the focus is on whether the requirements make any reference to either the term "accounting standards" or the more specific term "Australian Accounting Standards" as set out below:

    a. If neither term is mentioned, then the reporting requirements are not within the scope of the reforms and these entities can continue to prepare SPFS with no further impact

    b. If the term "accounting standards" is used, the reporting requirements are also not within the scope of the reforms, and the entity can continue to prepare SPFS with no further impact

    c. If the term "Australian Accounting Standards" is used, then the reporting requirements fit within the scope of the reforms.

REFERENCE TO "AUSTRALIAN ACCOUNTING STANDARDS"

36. While wording that specifically refers to "Australian Accounting Standards" is within the scope of the reforms, the nature of the changes an entity needs to make to its financial statements in response to the reforms depends on the date those words were included in the reporting requirement.

DOCUMENTS CONTAINING AAS REFERENCE "CREATED OR AMENDED ON OR AFTER 1 JULY 2021"

37. If non-statutory documents, such as those discussed above, make specific reference to the preparation of financial statements in compliance with "Australian Accounting Standards" then such entities could fall within the scope of the reforms and will need to prepare GPFS. However, it is important to note this will be the case only if the non-statutory document is created or amended after 1 July 2021 and includes, or retains, a requirement to comply with "Australian Accounting Standards". It should be noted that if a non-statutory document that existed prior to 1 July 2021 is amended for any reason after 1 July 2021 and retains a requirement to comply with AAS, the entity subject to the document will need to prepare GPFS. This is because 1 July 2021 marks the date when the AASB considers that transition to its new for-profit reporting framework occurred.

38. It is therefore now very important to ensure any future amendments to such non statutory documents are carefully considered to avoid unintended consequences. References to "Australian Accounting Standards" and "accounting standards as defined in the Corporations Act" should be avoided where possible if an entity wants flexibility in determining their financial reporting requirements as continued use of these words in such non-statutory documents will trigger the need for GPFS. For more guidance on this, refer to the **AASB's Navigating the financial reporting requirements in for-profit private sector client documents**.

DOCUMENTS CONTAINING AAS REFERENCE NOT "CREATED OR AMENDED ON OR AFTER 1 JULY 2021"

39. If such non-statutory documents were created before 1 July 2021 and not amended after that date, even if there is a reference to "Australian Accounting Standards", such entities are exempted from these reforms and so the entity can continue to prepare SPFS. However, these financial statements are now subject to extra disclosures under amending standard AASB 2022-4 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities.* This standard amends to AASB 1054 Australian Additional Disclosures and AASB 1057 Application of Australian Accounting Standards to require that certain for-profit private sector entities discussed in this section that prepare SPFS "in accordance with Australian Accounting Standards" must disclose the information detailed below. The additional disclosures will sit in AASB 1054 while the changes to AASB 1057 will ensure that AASB 1054 applies to these entities.

40. The information that must be disclosed by a for-profit entity is as follows:

    a. the entity's reporting framework, that it is a for-profit entity and that it is preparing SPFS why the entity is preparing SPFS

    b. the material accounting policies applied in those SPFS

    c. if these policies do not comply with the recognition and measurement requirements in AAS, an indication of how they do not comply

    d. whether the SPFS comply with the consolidation and/or equity accounting requirements of AAS for any interests in other entities

    e. an overall statement of whether the financial statements comply with the recognition and measurement of AAS

    f. other disclosures specified in AASB 1054.

41. The purpose of these disclosures is to ensure that users are made aware of the basis on which the financial statements have been prepared. These disclosures will need to be included every year whilst the entity's financial reporting requirements continue to stipulate compliance with AAS, and the entity is preparing SPFS.

42. AASB 2022-4 is effective for annual reporting periods ending on or after 30 June 2022.

ENTITIES ELECTING TO PREPARE A GPFS

43. The final group of entities that fall within the scope of the framework reforms are those who "elect to prepare GPFS" notwithstanding any specific reporting requirements they are subject to. If such financial statements are purported to be GPFS, then they are required to be prepared as either Tier 1 or Tier 2 GPFS and comply with the relevant recognition, measurement, presentation and disclosure requirements that apply to that Tier.

IMPACT ON SPECIFIC TYPES OF FOR-PROFIT ENTITIES

44. We have listed below some of the common types of entities and the potential outcome from completing an assessment of whether they are within the scope of the reforms. It is important to note that the types of entities highlighted below is not intended to be an exhaustive list, and readers should ensure they consult the specific reporting requirements that they are subject to. **AASB's Research Report 10 Legislative and Regulatory Financial Reporting Requirements** may be of assistance in undertaking this assessment.

ENTITIES CURRENTLY PREPARING TIER 1 GPFS

45. No change is likely for entities that are currently required to prepare Tier 1 GPFS either because they have "public accountability" (as defined by AASB 1053 Appendix A), or because they have chosen to prepare Tier 1 GPFS. Such entities should continue to prepare Tier 1 GPFS that comply with all the recognition, measurement, presentation and disclosure requirements of AAS. Such entities include listed entities and disclosing entities.

ENTITIES CURRENTLY PREPARING TIER 2 GPFS UNDER THE REDUCED DISCLOSURES REQUIREMENTS (RDR) FRAMEWORK

46. Entities that currently are required to or choose to prepare Tier 2 RDR financial statements because they are not "publicly accountable" may continue to prepare Tier 2 GPFS. However, from periods commencing on or after 1 July 2021, these entities will need to adopt the new AASB 1060 Simplified Disclosure Standard (SDS). The SDS replaces the RDR framework which has been withdrawn from 1 July 2021.

47. Transitioning to AASB 1060 should result in an overall reduction in disclosures when compared to the disclosures currently made under the RDR framework, although there are some new disclosures that have been added. For more information on the differences between the two, refer to the document **AASB's Key facts AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Entities**.

LARGE PROPRIETARY COMPANIES CURRENTLY LODGING SPFS

48. These entities are one of the main groups impacted by the reforms because the reporting requirements of Chapter 2M require the preparation of "financial statements in accordance with accounting standards". This means, for accounting periods ending 30 June 2022 and beyond, these entities must lodge Tier 2 GPFS as a minimum, not SPFS, in order to satisfy their reporting requirements.

49. This reflects the government view that a large proprietary company is an economically significant entity. To support this view the thresholds that determine whether a proprietary company is large were doubled for financial years beginning on or after 1 July 2019. A large company is now one that meets two of the following three criteria:

    - consolidated revenue of $50 million or more
    - consolidated gross assets of $25 million or more
    - 100 or more employees.

50. A grandfathered large proprietary company currently preparing SPFS must also transition to GPFS even though its financial statements are not lodged. This is because the Corporations Act still requires them to "prepare financial statements" which means these entities are within the scope of these reforms.

UNLISTED PUBLIC COMPANIES

51. Similar to large proprietary companies discussed above, unlisted public companies are impacted because the reporting requirements of Chapter 2M require the preparation of "financial statements in accordance with accounting standards". This means these entities must lodge at least Tier 2 GPFS and not SPFS, in order to satisfy their financial reporting requirements.

SMALL FOREIGN-CONTROLLED COMPANIES

52. Small foreign-controlled companies are within the scope of the reforms meaning that such companies are now required to prepare GPFS. However, for small foreign-controlled companies that are not part of a large group, if the directors have resolved to rely on the relief from preparing and lodging a financial report under **ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204**, such companies are exempt from a requirement to prepare financial statements. Small foreign-controlled companies whose parent (which must be an Australian company or a registered foreign company) has lodged consolidated financial statements with ASIC are also exempt from preparing financial statements.

COMPANIES REQUESTED BY ASIC TO PREPARE A FINANCIAL REPORT

53. Where ASIC requests that a small proprietary company prepare a financial report, GPFS will generally be required as part of that financial report. This is because the request will constitute a "legislative requirement to prepare financial statements using AAS" in accordance with the Corporations Act.

COMPANIES REQUESTED BY SHAREHOLDERS TO PREPARE A FINANCIAL REPORT

54. Where small proprietary companies are directed by more than 5% of shareholders under section 293 of the Corporations Act 2001 to prepare a financial report (which must include financial statements), the shareholders can specify within the direction that the financial report does not have to comply with some or all of the accounting standards (s293(3a)). If such specification is made, the entity will not fall within the scope of these reforms.

AUSTRALIAN FINANCIAL SERVICES LICENSEES (AFSLS)

55. Australian Financial Services Licensees are within the scope of the reforms as a result of either their requirements to report under Chapter 7 of the Corporations Act 2001 (Form FS 70 which requires financial reports prepared in accordance with Australian Accounting Standards) or Chapter 2M of the Corporations Act. Therefore, they will be required to transition to preparing GPFS. The type of GPFS (Tier 1 or Tier 2) will depend on the type of licence held and, for some AFSL types, whether the licensee has "public accountability" as defined by AASB 1053. ASIC has issued a **policy statement** on 3 June 2022 explaining its requirements. ASIC has provided a one year deferral of the new requirements to AFSLs that are currently preparing SPFS and are only affected by the financial reporting requirements of Chapter 7 of the Corporations Act.

ENTITIES REPORTING UNDER QUEENSLAND BUILDING AND CONSTRUCTION COMMISSION REQUIREMENTS

56. Queensland Building and Construction Commission (QBCC) annual reporting requirements for licence categories 4 to 7 require "signed financial statements prepared in accordance with prescribed accounting standards" and therefore fall within the scope of these reforms. If an entity reports under another legislative requirement e.g., the Corporations Act 2001, then GPFS can be lodged to satisfy their reporting requirements for the year ended 30 June 2022. However, if the entity only has QBCC reporting requirements, QBCC transitional provisions mean that GPFS are only required from years ending 30 June 2023 onwards. For 30 June 2022 year ends, QBCC permits SPFS but additional disclosures regarding the measurement policies being applied are required. For further guidance see our **QBCC annual reporting flowchart**.

WHAT ABOUT PRIVATE SECTOR NFP ENTITIES?

57. Since the framework reforms introduced by AASB 2020-2 only impact for-profit entities, SAC 1 continues to remain in force for private sector NFP entities, allowing them to continue to prepare SPFS for the immediate future, consistent with their previous practice provided they remain a "non-reporting entity" as defined by SAC 1.

58. However, this situation will change once the AASB completes the development of its new differential reporting framework for private sector NFP entities. This new framework is expected to prescribe a new Tier 3 reporting framework with simplified recognition, measurement, presentation and disclosure requirements suitable for smaller NFP entities. The new framework will replace SAC 1 and incorporate the IASB's new Conceptual Framework (suitably modified for NFPs). More information on the project status can be found in the **AASB's NFP Project Summary**.

59. In the meantime, the current for-profit reporting reforms have already introduced one immediate change for NFP entities preparing SPFS that are required to comply with AASB 1054 (e.g., charities registered with the Australian Charities and Not-for-profits Commission (ACNC), and unlisted public companies limited by guarantee). **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** amended paragraph 9 of AASB 1054 to require that SPFS lodged with the ACNC and ASIC for annual reporting periods ending on or after 30 June 2020 must disclose:

    a) the basis of the decision to prepare SPFS

    b) information about whether it has assessed if any interests in other entities would require application of the consolidation or equity accounting standards and, if so, whether these standards have or have not been applied and why

    c) an explanation of how its material accounting policies differ from those required by the accounting standards, unless it has not made such an assessment which then must also be disclosed

    d) an overall statement as to whether the financial statements do or do not comply with the recognition and measurement requirements of AAS.

WHAT ABOUT PUBLIC SECTOR ENTITIES?

60. Similar to private sector NFP entities, SAC 1 continues to remain in force for public sector entities, allowing them to continue to prepare SPFS for the immediate future, provided they remain a "non-reporting entity" as defined by SAC 1. The AASB has begun conducting targeted outreach on the development of the public sector reporting framework but has not indicated when a formal public consultation process will take place. More information on the project status can be found in the **AASB's Public Sector Financial Reporting Framework Project Summary**.

DETERMINING THE CONTENT OF FINANCIAL STATEMENTS

61. Entities, including those discussed above, that are within the scope of the reforms can no longer prepare SPFS and must transition to GPFS for 30 June 2022 and later financial reporting periods. Since many such entities are unlikely to have public accountability (as defined by AASB 1053) they will only be required to prepare a Tier 2 GPFS.

TRANSITIONING TO A TIER 2 GPFS

62. As mentioned earlier, Tier 2 GPFS are required to comply with all the recognition and measurement requirements of AAS which can be found in the relevant standards applying to each transaction type. This includes consolidation and equity accounting if the entity holds relevant interests in other entities. Having determined the necessary accounting policies, AASB 1060 then sets out the necessary presentation and disclosure requirements.

63. The impact of the change to an entity's recognition and measurement policies will depend on:

    a) the extent to which an entity's activities are affected by recognition and measurement requirements in specific AAS

    b) the degree of difference between the entity's existing accounting policies and the recognition and measurement requirements in AAS

    c) whether the entity has interests in other entities that should be consolidated, or equity accounted, as applicable

    d) the current level of disclosures in the financial statements.

64. Key areas of recognition and measurement where accounting policies are likely to have to change include:

    a) revenue and income recognition

    b) leases

    c) financial instruments

    d) tax

    e) employee leave provisions

    f) consolidation and equity accounting.

65. It should also be noted that for entities adopting the reforms on the mandatory date (30 June 2022 and later year ends), Tier 2 GPFS must include comparatives for the preceding financial year (for example, prior year numbers for the year ended 30 June 2021 for June reporters). These comparatives must be prepared and presented on the same basis of recognition and measurement as the current year, meaning that an opening balance sheet as at 1 July 2020 needs to be prepared and audited if required (but not presented as part of the financial statements).

66. Once the necessary changes to recognition and measurement practices have been identified, it is then necessary to deal with the required changes in disclosures, mandated by AASB 1060. While AASB 1060 was principally designed to assist entities with a smooth transition from SPFS to GPFS reporting, its scope has been extended to apply to all for-profit and not-for-profit (private and public sector) entities that currently prepare Tier 2 GPFS using the RDR framework. This means that entities that already prepare Tier 2 GPFS are also required to adopt the new Tier 2 disclosures contained in AASB 1060 for periods ending 30 June 2022 and thereafter.

67. The new disclosures contained in AASB 1060 have been simplified when compared to the disclosure requirements for Tier 1 entities as well as those required under the AASB's Tier 2 RDR framework, especially in the areas of revenue, leases, impairment and financial instruments. However, in comparison to common disclosures in SPFS, AASB 1060 does introduce several new disclosures that entities would not have generally included in their SPFS.

68. If more details are required on the preparation of Tier 2 GPFS using AASB 1060 there are a range of additional resources available to assist entities that have been prepared or collated by the AASB, and by CA ANZ and CPA Australia including fact sheets, articles and illustrative financial statements. These are detailed in the resources section at the end of this guide. In particular the AASB's **Key facts: AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities** contains a range of important information about the impact of AASB 1060 in the preparation of financial statements under the new regime.

PLANNING AND RESOURCING THE TRANSITION

69. The transition from SPFS to Tier 2 GPFS could involve a substantial amount of work, determined by the entity's specific circumstances, its current level of compliance with the recognition and measurement requirements of AAS and the level of disclosure already included in their SPFS. Entities may need to allocate additional time and/or resources to prepare their financial statements to meet their new financial reporting requirements, which will include the preparation of an opening transitional balance sheet and the restatement of comparatives.

70. In addition to the preparation costs, there will also be an audit impact as the auditor will need to examine the necessary changes to accounting policies, the required transition adjustments and the new or amended disclosures. Early engagement with the auditor is recommended to ensure the impact of the reforms on the audit process is properly assessed and planned for.

ENTITIES THAT CAN CONTINUE TO PREPARE SPFS

71. Entities that do not fall within the scope of the reforms can continue to prepare SPFS to meet their legislative or other obligations to keep adequate books and records, demonstrate adequate discharge of duties and to meet their tax 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.

72. The content of these SPFS can remain unchanged, with the exception of those for-profit entities who are subject to the additional disclosures discussed in paragraph 40 of this guide and those NFP entities who are subject to the requirements of AASB 1054 (see paragraph 59). However, these disclosures do not affect:

    a) Other private sector NFPs whose reporting requirements will be the subject of a separate consultation by the AASB; and

    b) public sector entities whose reporting framework requirements will be considered once the NFP reform proposals are complete.

73. A list of the common types of entities which can continue to prepare SPFS are identified in paragraph 30.

DETERMINING IF SPFS REMAIN APPROPRIATE FOR AN ENTITY'S CIRCUMSTANCES

74. It should be remembered that the preparation of SPFS under SAC 1 presumes that the report is being specifically tailored to the needs of a limited number of users and that it does meet those needs (see paragraph 19 of SAC 1). Typical users of financial statements are shareholders, creditors and lenders but may also be employees or other third parties impacted by the entity's activities. Where the needs of users are more diverse, and/or they cannot demand inclusion of the information they require, GPFS may be a more suitable option.

75. An entity's directors, owners or others charged with governance are responsible for determining the appropriateness of the preparation of SPFS considering 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.

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

    a) the degree of separation of ownership and control,

    b) the economic or political influence the entity has on third parties, and

    c) its financial characteristics.

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

INFORMATION THAT SHOULD APPEAR IN SPFS

78. 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.

79. Public companies limited by guarantee lodging financial reports under the Corporations Act 2001 are still mandated to apply some AAS in their financial reports. These minimum mandated AAS are:

   a) AASB 101 Presentation of Financial Statements

   b) AASB 107 Statement of Cash Flows

   c) AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors

   d) AASB 1048 Interpretation of Standards

   e) AASB 1054 Australian Additional Disclosures.

   These entities should also consider the **ASIC Regulatory Guide 85 Reporting requirements for non-reporting entities** when preparing SPFS to lodge under the Corporations Act 2001.

80. Similarly, charities lodging financial reports with the Australian Charities and Not-for-profits Commission (ACNC) are also required to apply the following minimum mandated AAS when preparing SPFS:

   a) AASB 101 Presentation of Financial Statements

   b) AASB 107 Statement of Cash Flows

   c) AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors

   d) AASB 1048 Interpretation of Standards

   e) AASB 1054 Australian Additional Disclosures.

81. Recently introduced changes to ACNC reporting requirements will now require additional disclosures in addition to the above referred five mandated AAS. For years ended 30 June 2022 and beyond, large charities with more than one individual as their Key Management Personnel (KMP) must include disclosures relating to KMP remuneration when preparing SPFS.

   These disclosures can either be based on the requirements in AASB 124 Related Party Disclosures or the equivalent disclosures in AASB 1060. For more information see the **ACNC guide**.

82. As explained in paragraph 59, NFPs that are required to comply with AASB 1054 will need to make the additional disclosures relating to the basis of the decision to prepare SPFS and the extent to which the SPFS comply with the recognition and measurement requirements of AAS.

83. As explained in paragraph 39-42, for-profit entities who have the term "Australian Accounting Standards" appearing in governing documents created prior to 1 July 2021 will also need to include additional disclosures in their SPFS relating to the material accounting policies applied in those SPFS, and the extent of compliance, or otherwise, with the recognition, measurement, consolidation and equity accounting requirements in AAS while the reference to "Australian Accounting Standards" remains unchanged.

SPFS THAT PROVIDE A "TRUE AND FAIR VIEW"

84. The AASB, when finalising the scope of AASB 2020-2, specifically decided not to mandate compliance with AAS when financial reporting requirements only refer to preparation of financial statements that are "true and fair", preferring to focus on references to "accounting standards" or "Australian Accounting Standards".

85. 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.

WHAT DOES ALL THIS MEAN FOR AN ENTITY RIGHT NOW?

86. As can be seen from the content in this guide, there are many aspects entities need to consider in determining if and how they are impacted by the reforms to the Australian financial reporting framework that limit SPFS as an option for financial reports. Entities should not underestimate the effort that may be required to migrate from SPFS to GPFS, especially where the recognition and measurement requirements of AAS are not currently being fully complied with, including the requirements to prepare consolidated financial statements in group situations.

87. Entities who have not yet done so are encouraged to assess the changes in the context of their specific circumstances to understand if and how the changes impact their current reporting practices. This will help ensure that there is sufficient time to allocate the required resources, deal with any complex transition issues that may arise (such as consolidation) and engage with accountants and auditors such that they can still meet statutory reporting deadlines.

88. The table on the next page provides a high-level summary of the impact of the reforms. While it may serve as quick reference for those entities where the consequences of the changes are clear, other entities with more nuanced circumstances will need to carefully analyse the key aspects covered in the guide to ensure they arrive at the appropriate conclusion.

	FOR-PROFIT PRIVATE SECTOR ENTITIES CURRENTLY PREPARING SPFS		FOR-PROFIT AND NOT-FOR-PROFIT ENTITIES CURRENTLY PREPARING TIER 2 GPFS BASED ON THE RDR FRAMEWORK	NOT-FOR-PROFIT ENTITIES CURRENTLY PREPARING SPFS
	WITH LEGISLATIVE REPORTING REQUIREMENTS FOR FINANCIAL STATEMENTS THAT COMPLY WITH "AUSTRALIAN ACCOUNTING STANDARDS" OR "ACCOUNTING STANDARDS"	WITH NON-LEGISLATIVE REPORTING REQUIREMENTS CONTAINED IN GOVERNING AND OTHER DOCUMENTS THAT REFER TO FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH "AUSTRALIAN ACCOUNTING STANDARDS"		
Examples of entities	• Companies required to prepare financial statements under the Corporations Act: o large proprietary companies (including grandfathered companies) o unlisted public companies (excluding companies limited by guarantee) o small companies with crowd-sourced funding shareholders o small proprietary companies controlled by a foreign company (where they do not have relief from preparing financial statements) o small proprietary company directed by ASIC to prepare a financial report o small proprietary company directed by more than 5% of shareholders to prepare a financial report under s293 • Australian Financial Service Licensees • Cooperatives and Mutuals (for- profit) • Higher education providers	• Small proprietary companies (other those highlighted in the previous column) • Sole traders • Partnerships • Trusts • Unincorporated joint arrangements • Self-managed superannuation funds (SMSFs)	• For-profit private sector entities that do not have public accountability • Not-for-profit reporting entities preparing GPFS • Country-by-Country Reporting Entities (CBCREs) preparing GPFS in accordance with AAS under tax legislation • Public sector entities (other than Australian Government and State, Territory and Local Governments)	• Not-for-profit entities that are not reporting entities, including: o NFP entities that are ACNC-registered charities o NFP entities that are companies limited by guarantee o NFP public sector entities
Extent of impact of the reforms	• Most impacted • Affected entities will need to prepare Tier 2 GPFS applying the new Simplified Disclosures in AASB 1060 • Transition effort required by affected entities will depend on: o current compliance with recognition and measurement requirements in AAS, including consolidation and equity accounting; and o current level of disclosures in SPFS	• Only impacted where governing or other document is created or amended on or after 1 July 2021 and includes, or retains, a requirement to comply with "Australian Accounting Standards" • Affected entities will need to prepare Tier 2 GPFS applying the new Simplified Disclosures in AASB 1060 • Transition effort required by affected entities will depend on: o current compliance with recognition and measurement requirements in AAS, including consolidation and equity accounting; and o current level of disclosures in SPFS	• Impact is limited to disclosures since these entities already comply fully with the recognition and measurement requirements in AAS • Disclosures in AASB 1060 will need to be adopted for years ending 30 June 2022 and thereafter	• None as the SPFS reforms apply only to certain for-profit entities • These entities can therefore continue to prepare SPFS, where appropriate (i.e., as long as they are not considered to be reporting entities under SAC 1), until such time as the AASB finalises the revised NFP differential financial reporting framework
Additional disclosures regarding basis of preparation	N/A	• Only impacted if their non-statutory documents were created prior to 1 July 2021, include a requirement to comply with "Australian Accounting Standards" and have not been subsequently amended (see paragraph 40 for more details).	N/A	• Only applicable to private sector NFP entities that prepare SPFS • These disclosures are contained in AASB 1054 (see paragraph 59).

RESOURCES

- **Relevant information published on the AASB website:**
  - o AASB webinars (**Part 1**, **Part 2** and **Part 3**)
  - o **AASB Phase 2 Project summary**
  - o **AASB NFP framework reform project**
  - o **AASB 2020-2** and supporting **fact sheet**
  - o **AASB 1060** and supporting **fact sheet**
  - o **AASB 2019-4** and supporting **fact sheet**
  - o **AASB 2022-4**
- CA ANZ website – **Australian framework reform** and **Q&A: Illustrative financial reports**
- CPA Australia website – **financial reporting professional resources**
- AUASB bulletin **Audit considerations on the removal of special purpose financial statements for certain for-profit private sector entities**.

APPENDIX A

Is your entity required by legislation to prepare financial statements that comply with 'Australian Accounting Standards' or 'accounting standards' (e.g. Corporations Act)?

Common types of entities that will answer "yes" to this question

- Companies required to prepare financial statements under the Corporations Act:
  - large proprietary companies (including grandfathered companies)
  - unlisted public companies
  - small proprietary companies with crowd-sourced funding shareholders
  - small proprietary companies controlled by a foreign company (where they do not have relief from preparing financial statements)
  - small proprietary companies directed by ASIC to prepare a financial report
  - small proprietary companies directed by 5% or more of shareholders to prepare a financial report (subject to the wording of the direction required under s293 of the Corporations Act)
- **Australian Financial Service Licensees**

APPENDIX B

Is your entity required by legislation to prepare financial statements that comply with 'Australian Accounting Standards' or 'accounting standards' (e.g. Corporations Act)?

Common types of entities that will answer "no" to this question

- Small proprietary companies (other than those highlighted in Appendix A)
- Sole traders
- Partnerships
- Trusts
- Unincorporated joint arrangements
- Self-managed superannuation funds (SMSFs)

APPENDIX C

Is your entity required by a constituting document (e.g. trust deed) or other document (e.g. bank agreement) to prepare financial statements that comply with 'Australian Accounting Standards'?

Common types of entities that will answer "no" to this question

- Entities that are required by governing or other documents (e.g. trust deed or bank agreement) to prepare financial statements in accordance with "accounting standards"
- Entities required by governing or other documents to prepare "financial information" other than financial statements
- Entities required by governing or other documents to prepare financial statements that are "true and fair" and no specific requirement for such financial statements to be prepared in accordance with Australian Accounting Standards
- Entities whose governing or other documents that require financial statements to prepared in accordance with Australian Accounting Standards, and such governing or other documents have not been amended (for any reason) after 1 July 2021