

Removal of Special Purpose Financial Statements for Certain Entities

The release of a new accounting standard will see the removal of the option to prepare special purpose financial statements for some entities.

Most entities that have historically prepared special purpose financial statements, including large proprietary, grandfathered, foreign-controlled and AFSL holders, will be required to prepare general purpose financial statements from 30 June 2022 or 31 December 2022.

Background

Following the release by the IASB of the Revised Conceptual Framework, which forms the basis of all International Accounting Standards and which was also adopted in Australia, the AASB has released a new accounting standard which removes the option to prepare special purpose financial statements for certain entities.

Australia currently has a unique self-assessment regime whereby a company has to determine whether it is a 'reporting entity', i.e. an entity that needs to prepare general purpose financial statements.

If the entity does not consider itself to be a 'reporting entity', it can choose to prepare special purpose financial statements which allows the preparer to judge which disclosures are necessary for users of the accounts.

Impact of the new standard

The most significant impact will be expected for entities that have not previously prepared consolidated financial statements as this was considered to be an optional disclosure item in a set of special purpose accounts. **Consolidation will now be mandatory.**

We expect to see entities needing to disclose more information. There will also be less judgement regarding what disclosures should be included as this will now be mandated by the accounting standards.

New Simplified Disclosure Requirement

For Tier 2 entities, the new Simplified Disclosure Requirement regime (SDR) will replace the current 'Reduced Disclosure Regime' (RDR).

SDR is based on IFRS for SMEs, bringing Australian Tier 2 reporting more closely in-line with IFRS.

Transition relief

An entity preparing general purpose financial statements for the first time can get some relief from AASB 1 First time adoption of Australian Accounting Standards, most notably in terms of previously unconsolidated subsidiaries.

For trusts, the AASB has given some grandfathering relief to trusts already in place at 1 July 2021 but trusts created after that date, or a trust making significant amendments to a trust deed after that date, will also need to prepare general purpose financial statements.

There is also transition relief available to companies that early adopt. In the first year there would be no need to restate the comparative information on early adoption of the standard.

Early adoption

Early adoption is available. With treasury doubling the large entity thresholds from 1 July 2019, many entities are re-assessing whether they are reporting entities as the intent of the revised thresholds was to indicate 'economic significance', which is also a factor to take into account when determining whether the entity is a reporting entity.

If preparing general purpose financial statements for the first time at 30 June 2020, early adoption of SDR might be more efficient.



How will it impact you?

We expect that affected entities will need to:

- Upskill their finance team members
- Invest significant time in getting it right in year one
- Make changes to systems and processes to capture the required data

How we can help

- Assess how the changes will impact you and your business
- Assist with educating and training you and your staff on the requirements of the new standard
- Prepare general purpose financial statements for tier 1 or tier 2 entities



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