

# THE BOTTOM LINE

Quarter 2 2019



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**Welcome to the second edition of The Bottom Line, our quarterly newsletter that aims to keep you in the loop with all the latest accounting and financial reporting developments, and the potential impact they may have on your business.**

In this edition, we take a look at determining the transaction price under the new revenue standard. We discuss the discount rate to use when bringing leases on balance sheet, as required by AASB 16 *Leases*. We also share recent developments relating to special purpose financial statements.

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# Why determining the transaction price can be tricky



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Under the new revenue recognition model introduced by AASB 15 *Revenue from Contracts with Customers*, step 3 requires entities to determine the transaction price. This is an important step as the transaction price is allocated to the identified performance obligations and is recognised as revenue when, or as, those performance obligations are satisfied.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, sales taxes). Very often this will be the amount specified in the contract. However, where an entity's customary business practices indicate that a lesser amount will be accepted, this would then be the transaction price.

In many cases, the transaction price is easily determined because the entity receives payment when it transfers promised goods or services and the price is fixed. Establishing the transaction price is more challenging when it:

- is variable; or
- has a variable component.

Consideration under a contract with a customer can vary because of discounts, rebates, refunds, credits, price concessions, performance bonuses, penalties or other similar items.

The promised consideration can also be variable even when the stated contract price is fixed. This is because the entity may be entitled to the consideration only upon the occurrence or non-occurrence of a future event. For example, a contract to provide a customer with 500 widgets at a fixed price per widget includes a variable component if the customer has the right to return the widgets.

Variability may be explicit or implicit, arising from customary business practices, published policies or specific statements, or any other facts and circumstances that would create a valid expectation by the customer.

## Estimating variable consideration

An entity estimates the transaction price at contract inception, including any variable consideration.

AASB 15 requires that variable consideration be estimated by using either of the following methods:

### Expected value



The sum of probability-weighted amounts for a range of possible consideration amounts. This may be an appropriate approach if the entity has a large number of contracts with similar characteristics.

### Most likely amount



The single most likely amount in a range of possible consideration amounts. This may be an appropriate approach if a contract has two possible outcomes, such as a performance bonus which either will or will not be received.

The approach chosen is not intended to be a free choice. Instead, the approach elected for each contract should be the one that better predicts the amount of consideration to which an entity expects to be entitled. Furthermore, the method selected is applied consistently throughout the contract and to similar types of contracts when estimating the effect of uncertainty on the amount of variable consideration.

At each reporting date, the estimated amount of variable consideration is updated to reflect any changes in circumstances since the last reporting date.

## Let's take a look at two examples.

### Expected value method

Build Co enters into a contract with a customer to build a medical facility with an expected completion date of 31 May 2019. The contract price specified in the contract is \$5 million but this will be decreased by \$20,000 for each week that completion date occurs after 31 May 2019.

*To determine the transaction price, the expected value method would be used as it would better predict the amount of consideration that Build Co will ultimately be entitled to. This is because there is a range of possible outcomes. The transaction price would be the sum of the probability-weighted amounts in the range of possible consideration amounts that could arise under the contract. Build Co would therefore be required to identify the possible outcomes of the contract and the probabilities of those outcomes.*

### Most likely amount method

Civil Co enters into a contract to construct a bridge for \$1 million. The contract includes a penalty of \$100,000 if the bridge is not completed by the date stipulated in the contract.

*In this case, the most likely amount method would better predict the amount of consideration that Civil Co would ultimately be entitled to. This is because there are only two possible outcomes: \$1 million if the bridge is completed on time, or \$900,000 if it is not completed on time.*

### Five-step revenue recognition model in AASB 15



### Constraining variable consideration

Once entities have appropriately identified the different instances of variable consideration included in a contract, the next step in estimating variable consideration involves applying a constraint.

Estimating variable consideration introduces uncertainty when measuring revenue. AASB 15 only allows variable consideration to be recognised to the extent that it is highly probable (i.e. significantly more likely than probable) that there will not be a significant reversal in the amount of cumulative revenue recognised once the uncertainty associated with the variable consideration is subsequently resolved. This 'constraint' is aimed at preventing the over-recognition of revenue.

In applying the constraint, an entity is required to assess both the likelihood and magnitude of the revenue reversal. This will require the use of judgement and consideration of all facts and circumstances. Factors that could increase the likelihood or magnitude of a revenue reversal include, but are not limited to:

- The consideration is highly susceptible to factors outside the entity's influence such as volatility in a market, the judgement or actions of third parties, weather conditions, and a high risk of obsolescence.
- The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.
- The entity's experience with similar types of contracts is limited, or that experience has limited predictive value.
- The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.
- The contract has a large number and broad range of possible consideration amounts.

The above assessment needs to be updated at each reporting date as more information becomes available and there is greater certainty about the expected amount of consideration.



The constraint represents a significant change in accounting for revenue. Legacy IFRS permitted the recognition of revenue only if it could be measured reliably, meaning uncertainty over the final outcome may have precluded revenue from being recognised. In contrast, applying the constraint under AASB 15 does not preclude revenue recognition but rather limits it.

### Sales with a right of return

A right of return does not represent a separate performance obligation. Instead, the existence of a right of return affects the transaction price and the amount of revenue an entity can recognise for satisfied performance obligations. That is, rights of return introduce variability into the transaction price.

When an entity sells goods with a right of return, revenue is recognised only to the extent that the entity expects to be entitled to it. In other words, revenue is not recognised for the goods expected to be returned. On making such sales, the following would be recognised:

- Revenue for the consideration the entity expects to ultimately be entitled to (so excluding goods expected to be returned);
- Refund liability for consideration that relates to the goods expected to be returned; and
- Asset (and corresponding adjustment to cost of sales) for the entity's right to recover the goods from customers on settling the refund liability.

Subsequently, at the end of each reporting period, the entity would update its assessment of amounts to which it expects to be entitled in exchange for the transferred goods and make a corresponding change to the amount of revenue recognised. The refund liability and asset would also, at reporting date, be remeasured for any revisions to the expected level of returns.

## Let's take a look at another example.

Lachie's Long Boards (LLB) enters into a contract with Victor's Surfing Supplies (VSS) to supply its latest short-style surf board ("short board"). At the end of April 2019, LLB sold 100 short boards to VSS for \$100 per unit. LLB's customary business practice is to allow customers to return short boards within 30 days of purchase and receive a full refund. The cost of each short board is \$60.

LLB estimates 10 short boards will be returned within the 30 day return period based on past sales experience with VSS. This estimate is based on past sales history and LLB concludes that it is highly probable this will occur (i.e. it is highly probable that 90 short boards will not be returned).

LLB also expects that the costs of recovering the returned short boards are negligible and they can be resold for a profit.

The journal entry to account for this sales transaction would be as follows:

Type	Explanation	Calc.	Debit	Credit
Cash	<i>Cash received</i>	100 x \$100	10,000	
Asset	<i>Cost of short boards expected to be returned</i>	10 x \$60	600	
Cost of Sales	<i>CoS less cost of short boards to be returned</i>	90 x \$60	5,400	
Sales	<i>Estimate of sales which will not be returned</i>	90 x \$100		9,000
Refund liability	<i>Estimate of sales which will be returned</i>	10 x \$100		1,000
Inventory	<i>Short boards removed from inventory</i>	100 x \$60		6,000

## Determining the discount rate: a key judgement

Under the new leases standard, lessees are required to bring most leases onto the balance sheet in the form of right-of-use assets with corresponding lease liabilities. These assets and liabilities are initially measured at the present value of the future lease payments. But at what discount rate?

The definitions of discount rates have remained unchanged from the superseded leases standard, however applying these concepts in bringing leases on-balance sheet will require judgement and will most likely prove to be one of the more practical challenges of AASB 16 for lessees.

A lessee discounts the lease payments using the interest rate implicit in the lease (IRIL) if this can be readily determined. Otherwise, the lessee uses its incremental borrowing rate (IBR). In terms of transition, entities using one of the modified transition approaches will be required to use the IBR at the date of initial application.

Interest rate implicit in lease	Incremental borrowing rate
The rate of interest that causes the present value of (a) the lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.	The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Based on the definitions above it can be seen that the two rates are conceptually different: the IRIL is specific to the lessor and is really a measure of the lessor's minimum return on the lease. The IBR, on the other hand, is specific to the lessee and is the rate at which the lessee could borrow over a similar term and with a similar security on the right-of-use asset.

### Interest rate implicit in the lease

The definition of IRIL is the same for both lessees and lessors. From the perspective of the lessee, however, it will often be difficult or impossible to make a reliable estimate of the IRIL due to the lack of available information that is specific to the lessor. For example, the IRIL hinges on the initial fair value of the underlying asset as well as the lessor's expectation of the residual value of the asset at the end of the lease term. Very often, lessees will not have the information at their disposal to determine these amounts.

It may be as simple as asking the lessor for the relevant information when negotiating the lease, however lessors may be unwilling to disclose specific pricing information so as not to give away commercially-sensitive information.

In other cases, the lessee may be able to reliably estimate the initial fair value and the residual value of the underlying asset as well as the lessor's initial direct costs (if these are expected to be significant) by reference to external sources. These estimates may be challenged by regulators and auditors so evidence supporting them, and documentation of considerations would be critical.

Where a lessee does go down the path of calculating the IRIL, it must be remembered that lease payments are defined differently in AASB 16 for lessees and lessors. Differences arise in the treatment of residual value guarantees and non-lease components. Since the IRIL is a company-specific rate that is specific to the lessor, it seems appropriate that lessees should use lease payments as defined for lessors in determining the IRIL.

Under AASB 16, lessees are required to use the IRIL if it is 'readily determinable'. Generally speaking, the expectation is that lessees will not be able to readily determine the IRIL for reasons outlined above and will therefore have to use their IBR.

### Incremental borrowing rate

The IBR is an interest rate specific to the lessee that reflects (see Figure 1):

- the credit risk of the lessee
- the term of the lease
- the nature and quality of the 'security' given
- the amount 'borrowed' by the lessee, and
- the economic environment in which the transaction takes place.

Considering the number of factors above, determining the IBR will require judgement and will most likely be a practical challenge for entities, especially those that do not have direct borrowings with banks and other financiers.

For those entities that do have direct borrowings, it may be appropriate to use the interest rate on these borrowings as a starting point in determining the IBR. This would then have to be appropriately adjusted to take into consideration all the factors listed above. Other sources of data that can be used as starting points in determining the IBR are property yields (for property leases), government and corporate bond rates. Again, these would need to be quantitatively adjusted to arrive at an appropriate IBR that satisfies the requirements of AASB 16.

A lessee's weighted average cost of capital (WACC) is not a suitable proxy for its IBR. WACC includes the cost of equity which is unsecured and ranks behind other creditors, meaning it is generally more expensive than debt. Furthermore, an entity's WACC is not specific to a lease and does not factor in the lease term, security and value of the underlying asset.

Lessees are required to determine a separate IBR for each lease except in the following cases:

- where the lessee chooses to apply the practical expedient that allows for lease accounting on a portfolio basis. AASB 16 allows this practical expedient if the effect is expected to be materially the same as a lease-by-lease approach; and
- on transition where the lessee uses the modified retrospective approach and applies a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

### Reassessment of discount rate

In most cases, a lessee does not reassess the discount rate during the lease term, including when there is a change in future lease payments due to a change in an index (such as CPI). However, a lessee remeasures

Figure 1

Factor	Impact on IBR
■ Credit risk of lessee	■
■ Term of the lease	■
■ Quality of security	■
■ Amount 'borrowed'	■

the lease liability at the date of reassessment using a revised discount rate when there is a change in:

- the lease term;
- the assessment of whether the lessee is reasonably certain to exercise an option to purchase the underlying asset; or
- floating interest rates that result in a change in future lease payments.

The revised discount rate is the interest rate implicit in the lease for the remainder of the lease term, unless it cannot be readily determined, in which case the lessee's incremental borrowing rate at the date of reassessment is used.

### Final thoughts

The discount rate is one of the most important judgements that management will need to make when it comes to AASB 16, and one which may have a significant quantitative impact on lease asset and lease liability measurements. Entities should not underestimate the time it will take to define their approach in this area, and the importance of documenting all related judgements and considerations for the likes of regulators, audit committees and auditors.

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## Proposal to disclose extent of compliance with recognition and measurement requirements

The AASB has decided to issue an Exposure Draft requiring all for-profit and not-for-profit entities that fall within the scope of AASB 1054 *Australian Additional Disclosures* (for example, entities that lodge with ASIC or the ACNC) to make specific disclosures in their special purpose financial statements (SPFS) regarding the extent of their compliance with the recognition and measurement requirements of Australian Accounting Standards.

For for-profit entities that publicly lodge SPFS, this will serve as an interim measure until the AASB's broader project of removing SPFS for these entities is completed. The AASB believes the proposed disclosures are needed to provide more transparency to the users of these SPFS given the inconsistency with which ASIC's Regulatory Guide 85 *Reporting Requirements for Non-reporting Entities* has been applied in practice up until now.

The additional disclosures being proposed are:

- whether the entity has subsidiaries and has prepared consolidated financial statements and if not consolidated, explain why not;
- if the entity has investments in associates and joint ventures, whether it has accounted for these in a manner consistent with AASB 128 *Investments in Associates and Joint Ventures*;
- whether the entity has or has not complied with all the recognition and measurement requirements of Australian Accounting Standards; and
- if the entity has not complied with all the recognition and measurement requirements, sufficient information so that users can clearly understand the accounting policies.

The Exposure Draft will not require entities to change their accounting policies to comply with all recognition and measurement requirements of Australian Accounting Standards; it is purely disclosure regarding the extent of compliance in this regard that will need to be made.

The Exposure Draft that is expected to be issued in June 2019 will have a comment period of 45 days. The intention is that the final standard will be issued before December 2019. The AASB is, however, strongly encouraging preparers of SPFS to voluntarily make the proposed disclosures in their 30 June 2019 financial reports, considering stakeholder expectations of trust and transparency from directors.

## Removal of SPFS for for-profit entities

The AASB is continuing to develop and progress with Phase 2 of its financial reporting framework project. Phase 2 applies to for-profit private sector entities that do not have public accountability and are required by legislation or otherwise to prepare financial statements in compliance with Australian Accounting Standards.

At its April meeting, the AASB decided to bring forward the proposed effective date for the removal of SPFS by 12 months. This means affected entities would be required to prepare general purpose financial statements (GPFS) for the first time for annual reporting periods beginning on or after 1 July 2020 i.e. for their 30 June 2021 financial years.

These GPFS would have to comply with all the recognition and measurement requirements of Australian Accounting Standards (AAS), including consolidation and equity accounting. Disclosure requirements are still under consideration but will most likely be based on the IFRS for SMEs. The AASB is dealing with the revision to the Tier 2 disclosures in a separate Phase 2 project – refer to discussion below.

To facilitate the earlier effective date, the AASB proposed an amendment to AASB 1 *First-time Adoption of Australian Accounting Standards* so that an entity preparing GPFS under Tier 2 requirements for the first time need not restate its comparative information.

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“This means affected entities would be required to prepare general purpose financial statements (GPFS) for the first time for annual reporting periods beginning on or after 1 July 2020.”



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Instead, the amendment would require the following information (in addition to the other requirements of AASB 1) for Tier 2 entities:

- a)** present two statements of financial position in accordance with AAS, as at:
  - i. the beginning of the reporting period; and
  - ii. the reporting date;
- b)** disclose the last SPFS statement of financial position as at the comparative period reporting date in the notes, with an explanation of the adjustments made for the statement of financial position at the beginning of the current reporting period to be AAS compliant;
- c)** present two statements of profit or loss and other comprehensive income as follows:
  - i. for the reporting period, in accordance with AAS;
  - ii. for the comparative period, as presented in the last SPFS but labelled clearly where the information is not AAS compliant.
- d)** disclose in the notes an explanation of the adjustments that would have been needed to make the comparative SPFS statement of profit or loss and other comprehensive income noted in (c)(ii) above compliant with AAS.

The AASB noted that relief from restating comparative information would be beneficial as it would reduce costs to preparers whilst also providing a consistent, comparable, enforceable and transparent reporting framework earlier.

Earlier application of the proposals would be permitted and encouraged, especially considering the increase in the large proprietary company thresholds from 1 July 2019.

The Exposure Draft that would implement Phase 2 is expected to be issued in October this year and will most likely have a comment period of 90 days.

## Revision of current Tier 2 RDR framework

This aspect of phase 2 of the AASB's financial reporting framework project relates to revising the current Tier 2 GPFS RDR framework for for-profit private sector entities that are not publicly accountable. The new Tier 2 framework would still use all the recognition and measurement requirements from full IFRS, but there has been some debate as to what disclosures should be made under the new Tier 2 framework.

Feedback from roundtables, surveys and submissions was that stakeholders considered the disclosure requirements of the current Reduced Disclosure Requirements (RDR) too much and the disclosures proposed in the Specified Disclosure Requirements (SDR) too little in some instances. Something in-between seemed to be the common message. In proceeding with Phase 2 of the financial reporting framework project discussed previously, a new Tier 2 GPFS framework needed to be developed in response to the feedback received by the AASB.

In response to the above, the AASB will propose a new Tier 2 disclosure framework that will be based on the disclosure requirements of the IFRS for SMEs. Under this approach, disclosures that are relevant to Tier 2 entities would be set out in a separate standard and would be developed via a 'bottom-up' approach based on the IFRS for SMEs disclosures, without reference to the full IFRS disclosures (i.e. no shading).

The new proposals will also be of interest to not-for-profit entities currently using RDR in their financial statements as they too will be able to apply the revised Tier 2 disclosures.

The Exposure Draft is expected to be issued in June or July 2019 with a comment period of 120 days.



## Large proprietary company thresholds doubled

The Commonwealth Government's proposal to double the reporting thresholds for 'large' proprietary companies became law on 4 April 2019. The relative size of a company is a key determining factor of a proprietary company's reporting obligations. Depending on its assets, revenue and employees, an entity will be classified as either 'small' or 'large'.

Large proprietary companies generally have increased reporting requirements as Part 2M.3 of the *Corporations Act 2001* (the Act) requires most large proprietary companies to prepare and lodge audited financial statements with the Australian Securities and Investments Commission (ASIC).

In contrast, small proprietary companies are generally required to keep sufficient financial records and are only required to prepare and lodge audited financial reports if directed to do so by ASIC or 5% or more of their shareholders.

### What has changed?

Section 45A of the Act contains the size thresholds for classifying a proprietary company as either small or large. The last time these thresholds changed was in 2007. *Corporations Amendment (Proprietary Company Thresholds) Regulation 2019* amends section 45A by increasing the size thresholds as follows:

Criteria	Old threshold	New threshold
Consolidated <b>revenue</b> for the financial year	\$25 million or more	\$50 million or more
Consolidated <b>gross assets</b> at the end of the financial year	\$12.5 million or more	\$25 million or more
Number of <b>employees</b> of the consolidated group at the end of the financial year	50 or more	100 or more

A proprietary company is considered to be large when it meets at least two of the above three criteria.

### Why did the thresholds change?

The reasons for doubling the thresholds were set out in the Explanatory Memorandum that accompanied the Regulation revising the thresholds. These included:

- Increasing the revenue and assets thresholds to account for nominal economic growth since 2007; and
- Ensuring that financial reporting obligations are targeted at economically significant companies, while reducing costs for smaller-sized companies.

The number of employees was cited in the Explanatory Memorandum as being a relevant indicator of the size and significance of a company, therefore it was considered appropriate to double this threshold too.

### How are the criteria measured?

There have been no changes to how the above criteria are measured. 'Consolidated' means the revenue, assets and employees of the company and the entities it controls for, or at the end of, the financial year, even if the company does not produce consolidated financial statements. In working out number of employees, part-time employees are taken into account as an appropriate fraction of a full-time employee.

Importantly, revenue and gross assets are measured by applying all accounting standards, including any new accounting standards such as AASB 16 *Leases* which is effective for annual reporting periods beginning on or after 1 January 2019. Where an entity is the lessee in leases previously classified as operating leases, the impact of the new standard will be an increase in gross assets recognised on the balance sheet. Entities should carefully consider the impact of AASB 16 on their balance sheets in assessing whether they are small or large, especially where they are close to the revised thresholds.

### When do the new thresholds apply?

The new thresholds apply to financial years beginning on or after 1 July 2019. That is, for entities with 30 June year ends, the new thresholds will apply to the year ended 30 June 2020 and later financial years. Entities with financial years ending in 2020 before 30 June 2020 (for example, 31 March 2020) will still be subject to the old thresholds.

## Recent agenda decisions by the IFRS Interpretations Committee

The IFRS Interpretations Committee, formerly known as the International Financial Reporting Interpretations Committee (IFRIC), is the interpretative body of the International Accounting Standards Board (IASB). The Interpretations Committee interprets the application of International Financial Reporting Standards (IFRS) and provides timely guidance on financial reporting issues not specifically addressed in IFRS.

A question submitted to the Interpretations Committee on the application of a specific accounting standard may result in either standard-setting where needed, or an agenda decision. Agenda decisions are those issues that the Interpretations Committee decides not to add to its agenda. Instead, the Committee will publish a summary of the submission and explain how the relevant principles and requirements of IFRS apply to the specific question.

While not authoritative guidance, the agenda decisions provide useful insight into the interpretation of IFRS.

The table below lists the agenda decisions issued in March 2019:

Agenda decision	Related standard
Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud	IFRS 16 <i>Leases</i> ; IAS 38 <i>Intangible Assets</i>
Over Time Transfer of Constructed Goods	IAS 38 <i>Intangible Assets</i>
Liabilities in Relation to a Joint Operator's Interest in a Joint Operation	IAS 23 <i>Borrowing Costs</i>
Sale of Output by a Joint Operator	IFRS 11 <i>Joint Arrangements</i>
Curing of a Credit-impaired Financial Asset	IFRS 11 <i>Joint Arrangements</i>
Credit Enhancement in the Measurement of Expected Credit Losses	IFRS 9 <i>Financial Instruments</i>
Physical Settlement of Contracts to Buy or Sell a Non-financial Item	IFRS 9 <i>Financial Instruments</i>
Application of the Highly Probable Requirement when a Specific Derivative is Designated as a Hedging Instrument	IFRS 9 <i>Financial Instruments</i>

For details of the above agenda decisions, refer to the [March 2019 IFRIC Update](#) on the IFRS website.

## IASB proposes to update Conceptual Framework reference in IFRS 3

The IASB has proposed narrow-scope amendments to IFRS 3 *Business Combinations*. The amendments would update a reference to the *Conceptual Framework for Financial Reporting* without changing the accounting requirements for business combinations.

IFRS 3 specifies *how* a company should account for the assets and liabilities it acquires when it obtains control of a business. It refers companies to the IASB's Conceptual Framework to determine *what* constitutes an asset or a liability. This reference is, however, to the old version of the Conceptual Framework. The proposed amendments would update IFRS 3, so it refers to the latest version which was issued in March 2018.

Updating the reference without making any other changes to IFRS 3 could change the accounting requirements for business combinations because the liability definition in the 2018 Conceptual Framework is broader than that in previous versions. Entities would need to record provisions and contingent liabilities when they acquire a business they would not record in other circumstances. To avoid this, the IASB is also proposing that for provisions and contingent liabilities, entities refer to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* instead of the Conceptual Framework to determine what constitutes a liability.

The change is proposed to stand until the IASB decides whether and how to amend IAS 37 to align it with the 2018 Conceptual Framework. The Australian-equivalent Exposure Draft, [ED 290 Reference to the Conceptual Framework](#), was issued by the AASB on 6 June 2019 and is open for comment until 20 August 2019.

## New Conceptual Framework released

Under Phase 1 of the AASB's staggered implementation of the IASB's revised *Conceptual Framework for Financial Reporting* in Australia, the AASB has issued a new Conceptual Framework that applies only to for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards. For-profit entities may also voluntarily elect to apply the new Conceptual Framework, which applies to annual reporting periods beginning on or after 1 January 2020.

[AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework](#) was issued on 6 June 2019 and supports the issue of the new Conceptual Framework. Being able to apply the new Conceptual Framework is important so that Australian entities that claim compliance with IFRS can continue to do so once the IASB's revised Conceptual Framework becomes effective from 1 January 2020.

The new Conceptual Framework incorporates the IASB's meaning of 'reporting entity' which is significantly different from the reporting entity concept currently used in Australia. It also contains revised definitions and recognition criteria for assets and liabilities, and a new chapter on measurement.

The amendments retain the Australian reporting entity concept for all other for-profit private sector entities to which the new Conceptual Framework does not apply. As explained on page 7, the AASB is continuing to progress with Phase 2 of the financial reporting framework project which will extend the new Conceptual Framework to these other for-profit private sector entities.

### 30 JUNE 2019 REPORTING PERIOD

## ASIC focus areas for 30 June 2019

On 17 June 2019, ASIC announced its focus areas for 30 June 2019 financial reports of listed entities and other public interest entities. In its media release, ASIC indicated that it will be reviewing more than 200 full-year 30 June 2019 financial reports to promote quality financial reporting, and useful and meaningful information for investors.

Not surprising was the amount of airtime that the impact of new accounting standards was given in the media release. This focus area was top of ASIC's list, as it was for the 31 December 2018 reporting period.

AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* will apply for the first time to 30 June 2019 financial years. Disclosures required by these standards in full-year financial reports are more extensive than what was required in the 31 December 2018 half-year reports. Accordingly, directors and management need to plan appropriately to ensure they understand the quantitative and qualitative disclosure requirements and implement processes to extract the information needed to meet the disclosure objectives of the new standards. New accounting policies should be carefully considered and tailored for the organisation. Boilerplate accounting policies will not suffice, especially when it comes to the new revenue standard.

AASB 16 *Leases* will apply for the first time to 30 June 2020 annual reporting periods. It is ASIC's expectation that entities will be in a position to disclose the quantitative impact of this new standard in the 30 June 2019 annual reports given the wide-ranging impacts this standard will have on balance sheets and income statements.

Other focus areas also remain unchanged from the 31 December 2018 focus areas. These are:

- Accounting estimates
- Impairment testing and asset values
- Accounting policy choices
- Revenue recognition
- Expense deferral
- Off-balance sheet arrangements
- Tax accounting
- Key disclosures
- Operating and financial review
- Non-IFRS information
- Estimates and accounting policy choices

For the full media release (19-143MR), please [click here](#).



## New and revised Australian standards and interpretations

The 30 June reporting period is fast approaching. The table below lists the new Australian standards, amendments and interpretations that are applicable for the first time to annual or half-year financial reporting periods ending 30 June 2019.

Entities are reminded that when a standard or interpretation has been issued but has yet to be applied by the entity, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of any information relevant to understanding the potential impact that the new pronouncement could have on the financial statements, where this information is known or can be reasonably estimated. Alternatively, the entity must indicate the reason for not doing so.

<a href="#">AASB 9</a> <i>Financial Instruments (2014)</i>	1 January 2018
<a href="#">AASB 15</a> <i>Revenue from Contracts with Customers</i>	1 January 2018 *
<a href="#">AASB 16</a> <i>Leases</i>	1 January 2019
<a href="#">AASB 1059</a> <i>Service Concession Arrangements: Grantors</i>	1 January 2019
<a href="#">AASB 2014-5</a> <i>Amendments to Australian Accounting Standards arising from AASB 15</i>	1 January 2018
<a href="#">AASB 2016-3</a> <i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i>	1 January 2018
<a href="#">AASB 2016-5</a> <i>Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
<a href="#">AASB 2016-6</a> <i>Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts</i>	1 January 2018
<a href="#">AASB 2016-8</a> <i>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities</i>	1 January 2019
<a href="#">AASB 2017-1</a> <i>Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments</i>	1 January 2018 *
<a href="#">AASB 2017-3</a> <i>Amendments to Australian Accounting Standards – Clarifications to AASB 4</i>	1 January 2018
<a href="#">AASB 2017-4</a> <i>Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments</i>	1 January 2019
<a href="#">AASB 2017-5</a> <i>Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections</i>	1 January 2018
<a href="#">AASB 2017-6</a> <i>Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation</i>	1 January 2019
<a href="#">AASB 2017-7</a> <i>Amendments to Australian Accounting Standards – Long Term Interest in Associates and Joint Ventures</i>	1 January 2019
<a href="#">AASB 2018-1</a> <i>Annual Improvements 2015-2017 Cycle</i>	1 January 2019
<a href="#">AASB 2018-2</a> <i>Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement</i>	1 January 2019
<a href="#">AASB 2018-4</a> <i>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors</i>	1 January 2019
<a href="#">AASB 2018-8</a> <i>Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities</i>	1 January 2019
<a href="#">Interpretation 22</a> <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
<a href="#">Interpretation 23</a> <i>Uncertainty Over Income Tax Treatments</i>	1 January 2019

\*Only for for-profit entities. For not-for-profit entities, the standard is effective for annual reporting periods beginning on or after 1 January 2019.

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