THE BOTTOM LINE

Quarter 3 2019

Welcome to the latest edition of our quarterly financial reporting publication 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.

It's been a busy quarter for the AASB with a number of Exposure Drafts being issued for public comment since June. We take a look at the proposed amendment to AASB 112 *Income Taxes* which will affect accounting for deferred tax on leases, as well as the recent proposals affecting special purpose financial statements. We also continue with the AASB 15 theme by focusing on step 4 of the revenue recognition model.

IN THIS ISSUE

AASB 15: Allocating the transaction price to performance obligations in a contract

AASB 16: Recognising deferred tax on leases

Special purpose financial statements latest developments

Regulatory activity

Global accounting developments

Recent AASB activity

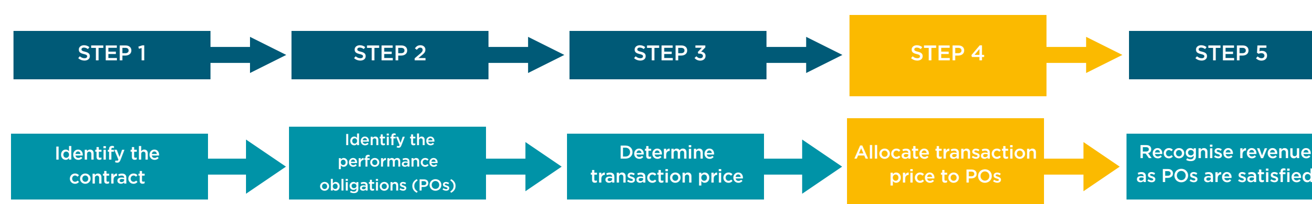
AASB 15

Allocating the transaction price to performance obligations in a contract

MICHELLE WARREN
Director of Financial Reporting
AUSTRALASIA

Step 4 of the revenue recognition model in AASB 15 *Revenue from Contracts with Customers* is about allocating the transaction price determined in step 3 to the performance obligations identified in step 2. We discussed step 2 and step 3 in the March and June editions of The Bottom Line respectively. This article takes a closer look as what step 4 entails.

Five-step revenue recognition model in AASB 15



The superseded revenue standard, AASB 118, did not contain any guidance as to how to allocate revenue to the separately identifiable elements of a transaction. In contrast, AASB 15 contains explicit guidance in this regard, requiring that the transaction price be allocated to each performance obligation – each distinct good or service – in the contract to depict the amount of consideration an entity expects to be entitled to in exchange for transferring the promised good or services to the customer.

Generally, the transaction price is allocated to each performance obligation in proportion to its stand-alone selling price. Exceptions apply when allocating discounts and when allocating consideration that includes variable amounts.

Determining stand-alone selling price

The stand-alone selling price of each distinct good or service underlying each performance obligation in a contract is determined at contract inception. The transaction price (as determined in step 3) is allocated to each performance obligation in proportion to those stand-alone selling prices.

The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer. The best indication of this is an observable price from stand-alone sales of the good or service in similar circumstances to similar customers. The stand-alone selling price may be, but is not always, a contractually stated price or a list price.

If the stand-alone selling price is not directly observable, the entity is required to estimate the amount by using an approach that maximises the use of observable inputs. Chosen estimation methods must be applied consistently to similar circumstances.

While the standard does not prescribe any specific method for estimating stand-alone selling prices, it does describe the following estimation methods as potential approaches:

Adjusted market assessment approach	Estimation of the price that customers in the market would be willing to pay. Could involve referring to prices from competitors for similar goods or services and adjusting for the entity's costs and margins.
Expected cost plus margin approach	Expected costs of satisfying a performance obligation plus an appropriate margin for that good or service.
Residual approach (must meet criteria)	Difference between the sum of the observable stand-alone selling prices of other goods or services promised in the contract and total transaction price.

The residual approach can only be used if the stand-alone selling price of one or more goods or services is either highly variable or uncertain. Additionally, observable stand-alone selling prices must be capable of being determined for the other goods or services promised in the contract.

Allocating a discount

If the sum of the stand-alone selling prices of a bundle of goods or services exceeds the promised consideration in a contract, then the discount is generally allocated proportionately to all the performance obligations in the contract.

However, if there is observable evidence that the entire discount relates to only one or more, but not all, the performance obligations in a contract, the discount is allocated only to those performance obligations to which the discount relates.

Let’s look at an example to illustrate the above principles.

Liam’s Loudspeakers Pty Ltd enters into a contract with a customer for a total consideration of $1,500 with the following performance obligations:

- 1. Sale of a loudspeaker – regularly sold by the company to customers for $1,000;
- 2. Training on use of the loudspeaker – not regularly sold separately but staff time is expected to be 10 hours and actual wage cost is $50 per hour. A reasonable margin for specialised training in a similar industry is 20%;
- 3. Certification in ‘responsible service of loudspeaking’ – this has never been sold to a customer however the company’s competitor sells this certification for $250.

How would the transaction price be allocated to the three performance obligations in the contract?

Analysis

The stand-alone selling prices for the training and certification are not directly observable, hence the company must estimate them. To do this, the company uses the expected cost plus a margin approach for the training, and the adjusted market assessment approach for the certification. The company estimates the stand-alone selling prices as follows:

Performance obligation	Stand-alone selling price	Method
Sale of loudspeaker	$1,000	Directly observable as regularly sold separately
Training	$600	Expected cost plus margin [(10 hrs x $50/hr) x 120/100]
Certification	$250	Adjusted market assessment
Total	**$1,850**	

The customer receives a discount for purchasing the bundle of goods and services because the sum of the stand-alone selling prices of $1,850 is greater than the promised consideration of $1,500.

If the company concludes that the discount of $350 belongs to all the performance obligations in the contract, it is allocated proportionately as follows:

Performance obligation	Stand-alone selling price	Allocated transaction price	Workings
Sale of loudspeaker	$1,000	$811	*$1,000/$1,850 x $1,500*
Training	$600	$486	*$600/$1,850 x $1,500*
Certification	$250	$203	*$250/$1,850 x $1,500*
Total	**$1,850**	**$1,500**	

If the company has observable evidence that the discount relates only to the sale of a loudspeaker and training, the discount is only allocated to these performance obligations. The allocation of the transaction price would then be as follows:

Performance obligation	Stand-alone selling price	Allocated transaction price	Workings
Sale of loudspeaker	$1,000	$781	*$1,000 – ($1,000/$1,600 x $350)*
Training	$600	$469	*$600 – ($600/$1,600 x $350)*
Certification	$250	$250	
Total	**$1,850**	**$1,500**	

AASB 16

Recognising deferred tax on leases

Proposed amendments to AASB 112 *Income Taxes*

On 25 July 2019, the Australian Accounting Standards Board (AASB) issued Exposure Draft 294 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (ED 294). The proposed amendments to AASB 112 *Income Taxes* would clarify the accounting for deferred tax on transactions that involve the recognition of an asset and a liability with a single tax treatment related to both. This would include leases being brought on balance sheet under the new requirements of AASB 16 *Leases*.

What is deferred tax?

Deferred tax assets and liabilities arise when the accounting treatment of an item in the financial statements differs from its tax treatment. The difference between an item's carrying amount (accounting treatment) and tax base (tax treatment) gives rise to a temporary difference, which will either increase or decrease future taxable profit when the temporary difference reverses in future.

A **deferred tax asset** is recognised for temporary differences that **reduce** future taxable profit (and consequently the amount of tax to be paid).

A **deferred tax liability** is recognised for temporary differences that **increase** future taxable profit (and consequently the amount of tax to be paid).

However, under AASB 112, entities are prohibited from recognising deferred tax assets and liabilities relating to temporary differences arising on initial recognition of an asset or liability that, at the time of the transaction, affects neither accounting profit nor taxable profit. This is called the 'initial recognition exemption'.

What is the issue?

To date, there has been diversity in practice in applying the above initial recognition exemption to finance leases (under AASB 117 *Leases*) and decommissioning liabilities.

Some entities reflect the future tax consequences of these transactions in their financial statements by recognising the related deferred tax (i.e. they treat the recognised asset and liability as a single transaction, and do not apply the initial recognition exemption).

Other entities only recognise the tax consequences in profit or loss when the related tax deductions become available for tax purposes (i.e. they apply the initial recognition exemption separately to the asset and the liability and do not recognise deferred tax).

With the advent of AASB 16, this issue would be more prevalent. Diversity in practice undermines the principles of comparability and usefulness of information to users of financial statements. This has prompted the International Accounting Standards Board (IASB) to propose the narrow-scope amendments explained below.

How do the proposals affect lease accounting?

AASB 16 requires most operating leases to be brought on balance sheet in the form of right-of-use assets with corresponding lease liabilities. For accounting purposes, depreciation and interest expense are recognised over the lease term as the lease asset is used and the lease liability is settled. For tax purposes, many taxation authorities (including the ATO) provide tax deductions only when an entity makes lease payments and not when the entity recognises depreciation and interest.

Depending on the applicable tax law, tax deductions can relate either to:

- the lease asset, because they relate to expenses from the lease (depreciation and interest expense); or
- the lease liability, because they relate to the repayment of the lease liability and interest expense.

Where tax deductions relate to the lease asset, no temporary differences arise when an entity initially recognises the lease asset and lease liability. This is because the tax bases of the lease asset and lease liability would be equal to the carrying amounts of the lease asset and lease liability.

Where tax deductions relate to the lease liability, temporary differences arise on initial recognition. This is because the tax bases of the lease asset and lease liability would be equal to zero. Entities would then have to recognise deferred tax on these temporary differences, provided the initial recognition exemption does not apply.

Practical implication: Entities will need to apply judgement in ascertaining whether the tax deductions relate to the lease asset or to the lease liability. Since the ATO allows tax deductions for lease payments, it makes sense that they are considered to relate to the lease liability.

What is being proposed?

The proposed narrow-scope amendments would limit the application of the initial recognition exemption. This means entities would be required to recognise deferred tax for temporary differences on transactions that give rise to both an asset and a liability (such as leases) and where the tax deductions relate to the liability. This would be only to the extent that, at the time of the transaction, the initial recognition gives rise to equal amounts of both deductible and taxable temporary differences. In such a situation, an entity would recognise:

(a) a deferred tax asset for the deductible temporary difference to the extent that probable future taxable profit will be available against which the deductible temporary differences can be utilised;

(b) a deferred tax liability for the taxable temporary difference, to the extent of the deferred tax asset recognised for the associated deductible temporary difference.

What is the potential impact?

The implications of the proposed changes depend on an entity's current treatment of deferred tax on affected transactions (such as leases and decommissioning obligations). If it currently recognises deferred tax as it recovers the asset and settles the liability, the impact is unlikely to be significant. For entities that apply the initial recognition exemption to affected assets and liabilities separately, they will have to recognise deferred tax once the changes become effective. This will also change the effective tax rates for these entities.

"For entities that apply the initial recognition exemption to affected assets and liabilities separately, they will have to recognise deferred tax once the changes become effective."

What is the effective date of the proposed amendments?

The effective date of the proposed amendments has not yet been determined. ED 294 is open for comment until 18 October 2019 and comments can be submitted via the AASB website, LinkedIn or email.

Early application will most likely be allowed once the changes to AASB 112 have been made.

Practical implication: While not an accounting standard (and therefore cannot be applied early), the ED may be useful guidance in applying the current version of AASB 112. The narrow-scope amendments do not change the existing requirements but rather clarify them.

What are the proposed transition requirements?

The transition requirements being proposed are full retrospective application in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. There is some transitional relief proposed relating to the assessment of future taxable profits. Applying this relief, entities would assess the recoverability of deferred tax assets only at the beginning of the earliest comparative period presented, instead of at the date of the specific transaction.

SPECIAL PURPOSE

In the last edition of The Bottom Line (Q3), we briefly discussed the three projects related to the future of special purpose financial statements (SPFS) that the Australian Accounting Standards Board (AASB) is working on. At that time, the Exposure Drafts for each of the projects had not yet been issued for comment. The last quarter has been a busy one for the AASB, with the following Exposure Drafts being issued:

ED 293 *Amendments to Australian Accounting Standards - Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements*

ED 293 proposes to require entities lodging SPFS with the Australian Securities and Investments Commission (ASIC) and not-for-profit entities lodging SPFS with the Australian Charities and Not-for-profits Commission (ACNC) to disclose an explicit statement as to whether or not the accounting policies applied in the SPFS comply with all the recognition and measurement (R&M) requirements in Australian Accounting Standards (AAS). Information about whether these entities have subsidiaries or investments in associates or investments in joint ventures and how they have accounted for these interests would also be required.

The ED contains implementation guidance and examples to illustrate what the proposed disclosures could look like, as well as a high level summary to assist in understanding the proposals.

The period of exposure for this ED was short – 45 days – and ended on 19 August 2019. At the September AASB board meeting, AASB staff presented their analysis of respondents' feedback and a decision was taken to defer the effective date of these proposals for *for-profit* entities for now, subject to the outcomes of ED 297 (see below). The financial reporting framework for *not-for-profit* entities (NFPs) is being undertaken as a separate project by the AASB and it is unclear when this will be finalised. For this reason, the proposals under ED 291 will go ahead for NFPs but there will be some redrafting to simplify the proposed disclosures and provide more helpful illustrative examples and guidance to assist NFPs in applying the proposals for the first time in financial years ending 30 June 2020 (for June balance dates).

ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*

ED 295 proposes replacing the current Reduced Disclosure Requirements (RDR) with a new, separate disclosure standard (the Simplified Disclosure Standard) that would apply to all entities that report under Tier 2 of the differential reporting framework.

The proposed disclosures have been based on the IFRS for SMEs standard, adapted for differences in recognition and measurements (R&M) requirements between Australian Accounting Standards and IFRS for SMEs, and to cater for specific not-for-profit needs.

One of the motivations behind the proposals is to find a balance between the benefits of financial information to users of 'Tier 2' financial statements and the costs of preparing that information, particularly for those entities moving from SPFS to Tier 2 under the AASB's proposals to remove SPFS for certain for-profit private sector entities (see ED 297 below).

The proposals under ED 295 will not change the R&M requirements of Tier 2 (which are the same as Tier 1). They will also not change which entities are permitted to apply Tier 2 reporting requirements. In support of the proposals made in ED 295, the AASB staff performed a comparison of RDR disclosures with the proposed Simplified Disclosures. A high level summary, as provided in the staff analysis, is as follow:

Extent of disclosure changes	AASB Standards
Disclosures significantly reduced compared to RDR	AASB 7, AASB 12, AASB 16
Disclosures reduced to some extent compared to RDR	AASB 3, AASB 12 (parts covering interests in associates and joint ventures), AASB 13, AASB 15, AASB 101, AASB 127, AASB 136
Disclosures essentially the same	AASB 2, AASB 102, AASB 107, AASB 108, AASB 112, AASB 116, AASB 120, AASB 121, AASB 123, AASB 129, AASB 137, AASB 138, AASB 140, AASB 141
Generally no significant disclosures, but IFRS for SME additional disclosures retained	AASB 1, AASB 110, AASB 119, AASB 124

The effective date being proposed is 1 July 2020 (i.e. for June year ends, the disclosures would apply for financial years ending 30 June 2021). The new disclosures can be adopted early once the ED is approved as a new standard.

ED 295 is open for comment until 30 November 2019 (the closing date was extended by two weeks at the September AASB board meeting). Comments can be submitted via the AASB website, LinkedIn or email.

ED 297 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*

Under ED 297, the AASB is proposing to remove the ability of certain for-profit private sector entities to publicly lodge SPFS with ASIC, including large proprietary companies, unlisted public companies and small foreign-controlled companies. Directors will no longer be able to self-assess whether or not an entity is a 'reporting entity' as defined in SAC 1. The aim is to improve the consistency, comparability, transparency and enforceability of financial information on public record, and to simplify the financial reporting requirements in Australia.

The proposed changes apply only to:

- 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
- 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 such relevant document was created or amended on or after 1 July 2020.

Consequently, affected entities will have to prepare some form of general purpose financial statements (GPFS), the minimum requirements being compliance with all the R&M requirements in Australian Accounting Standards and simplified disclosures based on the IFRS for SMEs Standard as proposed in ED 295 above. As a result, ED 295 and ED 297 should be considered in conjunction with each other.

The AASB is also proposing relief from restating and presenting comparative information in the year of transition to facilitate the proposed effective date of 1 July 2020.

Like ED 295, ED 297 is open for comment until 30 November 2019. Comments can be submitted via the AASB website, LinkedIn or email.

Apart from stakeholders being able to submit comments to the AASB, the AASB will be running a series of roundtables in the major cities in Australia during the course of October as a means of getting feedback from both for-profit and not-for-profit stakeholders related to EDs 295 and 297. Interested parties should register their interest at their preferred location. Locations, dates and times can be found on the AASB's website. Click here if you would like to register your attendance.

REGULATORY ACTIVITY

ASX Corporate Governance Principles & Recommendations 4th Edition

Earlier this year, the ASX Corporate Governance Council (the Council) released its final version of the 4th Edition of the ASX Corporate Governance Principles and Recommendations (CGPR). Overall, the revised CGPR include a strong emphasis on the link between culture, values and community expectations, no doubt incited by recent cases of conduct by large corporates falling short of community standards and expectations.

The CGPR sets out recommended corporate governance practices for Australian listed entities that are likely to achieve good governance outcomes. Good corporate governance promotes investor confidence in the market which is crucial for listed entities to compete for capital.

Good corporate governance cannot be applied on a 'one-size-fits-all' basis – entities will follow different governance practices depending on factors such as their size, complexity, history and culture. For this reason, the recommendations under the CGPR are not mandatory. If a listed entity deems a recommendation to not be appropriate to its specific circumstances, it does not have to adopt that recommendation. It must, however, explain why the recommendation was not adopted (the 'if not, why not' approach).

What has changed from the 3rd Edition?

The 4th Edition is similar in form and structure to the preceding edition: it has eight core principles, supporting recommendations and commentary with guidance on implementing the recommendations. The key changes from the 3rd Edition are discussed below.

Principle 3 and related recommendations

One of the key changes is the redrafting of Principle 3 to state that "*a listed entity should instil and continually reinforce a culture across the organisation of acting lawfully, ethically and responsibly*". The themes of culture and values are front and centre. The revised principle is supported by the introduction of three new recommendations – see recommendations 3.1, 3.3 and 3.4 below.

New recommendations

The 4th Edition contains 35 recommendations compared to 29 in the previous edition, including seven new recommendations. The new recommendations are as follows:

Recommendation 3.1	A listed entity should articulate and disclose its values.
Recommendation 3.3	A listed entity should: (a) have and disclose a whistleblower policy; (b) and ensure that the board or a committee of the board is informed of any material incidents reported under that policy.
Recommendation 3.4	A listed entity should: (a) have and disclose an anti-bribery and corruption policy; (b) and ensure that the board or a committee of the board is informed of any material breaches of that policy.
Recommendation 4.3	A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.
Recommendation 5.2	A listed entity should ensure that its board receives copies of all material market announcements promptly after they have been made.
Recommendation 5.3	A listed entity that gives a new and substantive investor or analyst presentation should release a copy of the presentation materials on the ASX Market Announcements Platform ahead of the presentation.
Recommendation 6.4	A listed entity should ensure that all substantive resolutions at a meeting of security holders are decided by a poll rather than by a show of hands.

There are also two new recommendations that would only apply to certain listed entities:

Recommendation 9.1	A listed entity with a director who does not speak the language in which board or security holder meetings are held or key corporate documents are written should disclose the processes it has in place to ensure the director understands and can contribute to the discussion at those meetings and understands and can discharge their obligations in relation to those documents.
Recommendation 9.2	A listed entity established outside Australia should ensure that meetings of security holders are held at a reasonable place and time.

Enhancements to existing recommendations

A large number of enhancements were made to existing recommendations. Some of the more significant changes are referenced below:

Theme	Summary of changes
Board responsibilities	Recommendation 1.1 includes several changes with respect to the role and responsibilities of the board of a listed entity. The 4th Edition lists a number of new board responsibilities aimed at supporting strong culture and governance.
Gender diversity	Recommendation 1.5 has been expanded to reflect that the measurable objectives for achieving gender diversity should extend to the entire entity i.e. the board, senior executives and the workforce generally. Commentary suggests that the board (or committee) may wish to consider setting KPIs for senior executives on gender participation within their areas of responsibility and linking part of their remuneration to the achievement of those KPIs.
Gender diversity (S&P/ ASX 300 Index entities)	A statement has been added to recommendation 1.5 that if a listed entity was in the S&P/ASX 300 Index at the beginning of the reporting period, the measurable objective for achieving gender diversity in the composition of the board should be to have not less than 30% of its directors of each gender in a specified period.
Diversity in board composition	The commentary under recommendation 1.5 has been amended to state that boards should consider other facets of diversity in addition to gender when considering the composition of the board, including having directors of different ages, ethnicities and backgrounds to provide different perspectives and avoid 'groupthink'.
Environmental and social risks	The definitions of 'economic sustainability', 'environmental sustainability' and 'social responsibility' have been replaced with 'environmental risks' and 'social risks' to capture a broader range of risks. Recommendation 7.4 now states that *"a listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks".*
Climate change risks	Commentary has been added to recommendation 7.4 to highlight climate change as a specific source of environmental risk. The Council encourages entities with a material exposure to climate change risk to make the disclosures recommended by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).
Executive remuneration	The commentary to recommendation 8.1 now identifies remuneration as a 'key driver of culture' as well as a focus for investors. The 4th Edition emphasises the need to avoid rewarding conduct that is contrary to an entity's values or risk appetite. In addition, the commentary now states that consideration should be given to the implications of being perceived by the community as paying excessively.

When will the 4th Edition come into effect?

The 4th Edition will apply to annual reporting periods beginning on or after 1 January 2020, meaning listed entities with 31 December balance dates will the first to adopt the latest edition of the CGPR for financial years ending 31 December 2020. Early adoption is, however, encouraged by the Council.

How should listed entities prepare?

Listed entities should undertake a review of their existing board charters, charters of committees and their stated corporate governance policies and procedures against the 4th Edition sooner rather than later to prepare for the 4th Edition's effective date. Specifically, listed entities may need to review or prepare the following:

- a code of conduct;
- a statement of values;
- a diversity policy;
- a whistleblower policy;
- an anti-bribery and corruption policy;
- a continuous disclosure policy.

Under the 4th Edition, listed entities should disclose the above policies in full to the market.

ASIC findings from 31 December 2018 financial reports

On 8 August 2019, ASIC announced the results from its review of the 31 December 2018 financial reports of 125 listed entities and other public interest entities. Twenty six entities were sent 'please explain' letters on 40 accounting-related matters.

ASIC reviewed 85 full-year financial reports and 40 half-year reports, with the focus for half-year reports being on the adoption of the new accounting standards, namely AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*.

The table below summarises the number of findings for each accounting-related matter:

Matter	No. of enquiries
Impairment and other asset values	13
Revenue recognition	12
Non-IFRS measures	4
Tax accounting	3
Consolidation	2
Business combinations	1
Amortisation of intangibles	1
Other matters	4
Total	**40**

Impairment of non-financial assets continues to raise the most concerns. ASIC continues to find instances where entities have made unrealistic and unsupportable assumptions about future cash flows. Specifically, ASIC found cases where assumptions derived from external sources were not assessed for consistency and relevance, and forecast cash flows appeared to be unreasonable, exceeding actual cash flows for several previous reporting periods. Other impairment-related findings include:

- cash generating units (CGUs) being identified at too high a level despite cash inflows being largely independent;
- excluding assets that generate cash inflows from the carrying amount of a CGU, such as trade receivables and tax balances;
- incorrectly deducting liabilities from the carrying amount of a CGU;
- incorrectly using fair value less costs to sell instead of value-in-use as recoverable amount in situations where it is not possible to reliably estimate the value that would be received to sell an asset in an orderly transaction between market participants;
- not having sufficient regard to impairment indicators;
- failure to make appropriate disclosure of key assumptions such as discount rates and growth rates, the sensitivity of key assumptions to reasonably possible changes, and valuation techniques where fair value is used.

In terms of revenue recognition, the concerns raised by ASIC centred mainly around contracts that involve multiple performance obligations where one or more of the obligations are still to be met. It was also found that revenue was not always disaggregated appropriately, taking into account how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Disaggregation of revenue must be disclosed in both half-year and full-year reports.

When it comes to new accounting standards, ASIC noted that entities could provide better explanation of the impact of adopting the new standards on revenue recognition (AASB 15) and financial instruments (AASB 9), including the nature and cause of any changes. This should be kept in mind for December 2019 half-years and June 2020 full-years in which the new leases standard, AASB 16, applies for the first time.

ASIC 'names and shames' entities where material changes are made following an ASIC inspection. This is to improve the level of market transparency and to create awareness of ASIC's concerns so that other entities might avoid similar issues. Not all enquiries lead to material restatements. For ASIC's full media release, click here.

Recent agenda decisions by the IFRS Interpretations Committee

The IFRS 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 June 2019:

Agenda decision	Related standard
Costs to fulfil a contract	IFRS 15 *Revenue from Contracts with Customers*
Subsurface rights	IFRS 16 *Leases*
Effect of a potential discount on plan classification	IAS 19 *Employee Benefits*
Holdings of cryptocurrencies	Not applicable

Overviews of the more relevant agenda decisions are provided below.

Costs to fulfil a contract (IFRS 15)

The fact pattern described in the submission stated that:

(a) there is a single performance obligation in the contract – the promise to transfer a building to the customer;

(b) the entity transfers control of the building over time as it is being constructed, and therefore recognises revenue over time applying IFRS 15.35(c);

(c) the entity uses the output method to measure its progress in satisfying the performance obligation; and

(d) costs are incurred to construct the building that is transferred to the customer over time.

The submitter asked whether the entity recognises an asset for some of the costs incurred at reporting date for work done in constructing the building that is transferring to the customer as it is being constructed.

The Interpretations Committee observed that the costs of construction described in the fact pattern relate to the partially satisfied performance obligation in the contract (i.e. they relate to past performance). IFRS 15.98(c) requires costs that relate to satisfied (or partially satisfied) performance obligations to be expensed when incurred. Furthermore, such costs do not generate or enhance resources of the entity that will be used in continuing to satisfy the performance obligation in the future, and therefore they cannot be capitalised under IFRS 15.95 as the criterion in paragraph 95(b) is not met.

Subsurface rights (IFRS 16)

The submission described a scenario in which a pipeline operator (customer) obtains the right to place an oil pipeline in underground space for 20 years in exchange for consideration. The contract specifies the exact location and dimensions (path, width and depth) of the underground space within which the pipeline will be placed. The landowner retains the right to use the surface of the land above the pipeline but has no right to access or otherwise change the use of the identified underground space during the 20-year term of use. The customer has the right to perform inspection, repairs and maintenance work.

The question was whether IFRS 16, IAS 38 *Intangible Assets* or another IFRS standard applies in accounting for the contract.

The Interpretations Committee noted that the land owner does not have the right to substitute the underground space throughout the period of use and that the specified underground space is therefore an identified asset. They also noted that the customer has exclusive use of, and the right to direct the use of, the underground space throughout the 20-year period of use. The Committee therefore concluded that the contract described in the request contains a lease under IFRS 16.

For details of the above agenda decisions, refer to the June 2019 IFRIC Update on the IFRS website.

RECENT AASB ACTIVITY

Apart from the Exposure Drafts discussed in other sections of this publication, the AASB have also recently issued the following Exposure Drafts which may be of interest to readers:

Not-for-profit entity definition and guidance

In June 2019, the AASB released Exposure Draft (ED) 291 *Not-For-Profit Entity Definition and Guidance* which proposes to replace the existing definition of a not-for-profit (NFP) entity with a substantive definition. The proposed definition has two interdependent parts: (1) the primary objective is to provide goods or services for community or social benefit, and (2) the provision of any equity is to support that objective rather than for a financial return to equity holders.

The new definition is proposed to be added to AASB 1057 *Application of Australian Accounting Standards*, with the old definition removed from the three standards in which it currently appears, namely AASB 102 *Inventories*, AASB 116 *Property*, *Plant and Equipment* and AASB 136 *Impairment of Assets*. Implementation guidance to help entities determine whether they are a NFP entity or a for-profit entity would also be added to AASB 1057.

For more details of the proposals under ED 291 and what it means for NFPs, refer to HLB Mann Judd's article "Proposed amendment to not-for-profit entity definition: What does it mean for NFPs?".

Disclosure of accounting policies

In August 2019, the AASB issued Exposure Draft (ED) 296 *Disclosures of Accounting Policies* in which it proposes amending AASB 101 *Presentation of Financial Statements* and Practice Statement 2 *Making Materiality Judgements* to help entities provide accounting policy disclosures that are more useful to users of financial statements.

AASB 101 requires disclosure of 'significant' accounting policies. Under the proposed amendments, this requirement would be replaced with a requirement to disclose 'material' accounting policies. Additionally, the Board is proposing to make changes to AASB 101 and Practice Statement 2 to assist entities in applying the concept of materiality in making decisions about accounting policy disclosures, including how to:

- identify and disclose all accounting policies that provide material information to primary users of financial statements; and
- identify immaterial accounting policies and eliminate them from financial statements.
- The proposals build on the standard "Definition of Material" issued by the AASB in December last year which made amendments to AASB 101 and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Comments on ED 296 can be submitted to the AASB until 28 October 2019.

CONTACT

For further information or assistance, please contact:

Adam Bradfield

T: +61 (0)2 6626 3000   F: +61 (0)2 6621 9035

E: adam.bradfield@tnr.com.au

Geoff Dwyer

T: +61 (0)2 6626 3000   F: +61 (0)2 6621 9035

E: geoff.dwyer@tnr.com.au

Kevin Franey

T: +61 (0)2 6626 3000   F: +61 (0)2 6621 9035

E: kevin.franey@tnr.com.au

Thomas Noble & Russell

Accountants | Auditors | Business Advisers