AADP 302 ACT ACCOUNTING DISCLOSURE PAPER

ON

TREATMENT OF AASB STANDARDS ISSUED WHICH ARE NOT YET EFFECTIVE AS AT 30 JUNE 2019

FOR THE REPORTING PERIOD ENDED 30 JUNE 2019

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1 INTRODUCTION

1.1 APPLICATION

This ACT Accounting Policy applies to directorates and territory authorities and covers Australian Accounting Standards and Interpretations which have been issued as at 30 June 2019 that are not yet effective. These standards and interpretations will apply during reporting periods later than 2018-19.

2 TREATMENT OF AASB STANDARDS ISSUED WHICH ARE NOT YET EFFECTIVE

2.1 DISCLOSURES REQUIRED FOR STANDARDS ISSUED BUT NOT YET EFFECTIVE

When a directorate or territory authority has not early adopted a new accounting standard, due to the fact that the standard is effective (i.e. compulsory) in a later reporting period, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires the directorate or territory authority to disclose details regarding that standard and its potential financial impact on the financial statements which may occur when the standard is applied. AASB 108.30 and 31 contain the disclosure requirements.

This policy paper has been developed to assist agencies in making these disclosures. As such, this paper provides an indication of what changes have been included in standards which have been issued but are not yet effective. This will assist agencies in identifying which of the standards may have a potential material financial impact on them when they are applied.

Agencies are required to:

1. **Identify those standards that will apply to their agency upon application, by reading this policy;**
2. **Assess whether there may be a material financial impact upon the agency (for all standards and interpretations that will apply) by reviewing the changes listed in this policy <u>and</u> referring directly to the standards and/or interpretations;**
3. **Only disclose details of the standards and interpretations which apply and are assessed as having a material financial impact on them, or where they have not yet assessed their impact in the format as presented in the 2018-19 Model Financial Statements (and <u>Attachment A</u>); and**
4. **Not disclose details of the standards and interpretations which either do not apply or which apply but are assessed as not having a material impact on them.**

For disclosure requirements, agencies should refer to <u>Attachment A</u> as it provides an updated Appendix C *Impact of Accounting Standards Issued but yet to be Applied* disclosure which contains a list of standards and interpretations, which are assessed as being applicable to 'Example Agency', that have been issued but are not yet effective for the 2018-19 financial year. This updates the example provided within Appendix C as presented in the 2018-19 Model Financial Statements. As noted above, the listing of standards in <u>Attachment A</u> and the associated commentary is to assist agencies in making the necessary disclosures. Agencies should assess from the list what standards they need to disclose bearing in mind the criteria in the next paragraph.

Note that only the standards issued but not yet effective which either are applicable to an agency and are assessed as having a material financial impact or the standards where such an assessment has not yet been made must be included in Appendix C. Agencies should also check the additional standards listed in the commentary to Appendix C (as appearing in Attachment A). These standards have been assessed as not applicable to most agencies; however, agencies should verify that they don't apply.

3 SUMMARIES OF CHANGES TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following standards and interpretations, currently issued by the AASB, which apply to reporting periods ending after 30 June 2019 include:

AASB Compiled Standards	
AASB 15	*Revenue from Contracts with Customers*
AASB 16	*Leases*
AASB 17	*Insurance Contracts*
AASB 1058	*Income of Not-for-Profit Entities*
AASB 1059	*Service Concession Arrangements: Grantors*
AASB Amending Standards	
AASB 2014-5	*Amendments to Australian Accounting Standards arising from AASB 15*
AASB 2014-10	*Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
AASB 2016-8	*Amendments to Australian Accounting Standards–Australian Implementation Guidance for Not-for Profit Entities*
AASB 2017-1	*Amendments to Australian Accounting Standards–Transfers of Investment Property, Annual Improvements 2014-16 Cycle and Other Amendments*
AASB 2017-4	*Amendments to Australian Accounting Standards–Uncertainty over Income Tax Treatments*
AASB 2017-6	*Amendments to Australian Accounting Standards–Prepayment Features with Negative Compensation*
AASB 2017-7	*Amendments to Australian Accounting Standards-Long Term Interests in Associates and Joint Ventures*
AASB 2018-1	*Amendments to Australian Accounting Standards – Annual Improvements 2015-17 Cycle*
AASB 2018-2	*Amendments to Australian Accounting Standards- Plan Amendment, Curtailment or Settlement*
AASB 2018-3	*Amendments to Australian Accounting Standards – Reduced Disclosure Requirements*
AASB 2018-4	*Amendments to Australian Accounting Standards–Australian Implementation Guidance for Not-for-Profit Public Sector Licensors*
AASB 2018-5	*Amendments to Australian accounting Standards – Deferral of AASB 1059*
AASB 2018-6	*Amendments to Australian Accounting Standards – Definition of a Business*
AASB 2018-7	*Amendments to Australian accounting Standards – Definition of Material*
AASB 2018-8	*Amendments to Australian Accounting Standards – Right-of-Use-Assets of Not-for-Profit Entities*
AASB 2019-1	*Amendments to Australian Accounting Standards – References to the Conceptual Framework*
AASB Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
AASB Interpretation 23	*Uncertainty over Income Tax Treatments*

3.1 AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (APPL. 1 JANUARY 2019 FOR NOT-FOR-PROFIT AGENCIES)

Background
AASB 15 establishes the principles that an entity should apply to report to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle of AASB 15 is that an entity should recognise revenue in line with the transfer of promised goods or services to customers and that the amount recognised reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. AASB 15 replaces:

- AASB 111 *Construction Contracts*;
- AASB 118 *Revenue;*
- Interpretation 13 *Customer Loyalty Programmes*;
- Interpretation 15 *Agreements for the Construction of Real Estate*;
- Interpretation 18 *Transfers of Assets from Customers*;
- Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*; and
- Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*.

Contracts outside the scope of AASB 15 include lease contracts (AASB 17 *Leases*), insurance contracts (AASB 4 *Insurance Contracts*); and financial instruments (AASB 9 *Financial Instruments*).
A *contract* is an agreement between two or more parties that creates enforceable rights and obligations. A contract may take different forms and may be verbal. Just because a customer has not exercised their rights in the past does not mean they are not enforceable. A *customer* is a party that has contracted with an entity to obtain goods and services that are an output of the entity's ordinary activities in exchange for consideration.
AASB 15 establishes a five step revenue recognition model:

- identify the contract with the customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations; and
- recognise revenue progressively as individual performance obligations are satisfied.

To apply the five step model directorates and territory authorities may need to exercise significant judgement when considering all the facts and circumstances in relation to their contracts. Depending upon the specific terms of a contract, the model may result in a change in the timing and/or amount of revenue to be recognised. Some revenue may be recognised at a point in time (when control is transferred to the customer) or over the term
of the contract (when performance obligations are satisfied progressively over a period of time).
In December 2016 the AASB released AASB 1058 Income of *Not-for-profit Entities*. AASB 1058 clarifies and simplifies the income recognition of requirements that apply to not-for -profit entities, in conjunction with AASB 15. When applicable, AASB 1058 and AASB 15 will supersede the majority of income recognition requirements relating to public sector NFP entities.

Impact
Memorandum 2018/02 *Accounting Standards effective in Future Periods – Implementation Issues for Agencies* identified actions that agencies need to carry out in their initial assessment of AASB 15. The impact on agencies will depend upon the goods and services they provide and how the five step revenue recognition model applies to their contracts with customers. There may well be an impact of deferring revenue that is currently recognised earlier e.g. when cash is received but the performance obligation under the contract has not been met. On the other hand, another possible impact could be the upfront recognition of revenue from licences that cover multiple periods rather than recognition over time -

depending upon the terms of the contract. Training on AASB 15 has been provided to agencies and further detailed guidance on transition options to be used will be provided to agencies on the implementation of AASB 15.

AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* deferred the effective application of AASB 15 until reporting periods beginning on or after 1 January 2018. AASB 2016-7 *Amendments to Australian Accounting Standards- Deferral of AASB 15 for Not-for-Profit Entities* amends the mandatory effective date (application date) of AASB 15 for not-for-profit entities so that AASB 15 is required to be applied by these entities for annual reporting periods beginning on or after 1 January 2019 instead of 1 January 2018.

3.2 AASB 16 LEASES (APPL. 1 JANUARY 2019)

Background
AASB 117 *Leases* focussed on identifying when a lease is economically similar to purchasing the asset being leased. When an agency's lease was determined to be economically similar to purchasing the underlying asset, the lease was classified as a finance lease and reported on the agency's balance sheet. All other leases were classified as operating leases and these were not reported on the balance sheet.
AASB 16 *Leases* introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value (e.g. personal computers, tablets, office furniture and telephones). ACT Government agencies will apply a threshold of $10,000 to determine whether an underlying asset is a low value asset. A lessee is required to recognise a right-of-use asset (representing the right to use the underlying leased asset) and a lease liability (representing the obligation to make future lease payments).

All leases will be treated in the same manner, broadly similar to the current treatment of a finance lease. AASB 16 replaces:
AASB 17 *Leases*,
AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*
AASB Interpretation 115 *Operating Leases – Incentives;* and
AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At the inception of a contract, an agency should assess whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
The right-of-use asset is initially measured at cost which is the initial direct cost of the lease liability, plus any rent paid before the commencement of the lease, plus any make-good obligation minus any lease incentives received. The right- of- use asset will be depreciated.

The lease liability is initially recognised at the present value of unpaid lease payments discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. The finance costs will be expensed.

Lessor Accounting
Lessor accounting is largely unchanged and lessors will continue to distinguish between finance and operating leases.

Impact
Memorandum 2018/02 *Accounting Standards effective in Future Periods – Implementation Issues for Agencies* identified actions that agencies need to carry out in their initial assessment of AASB 16. Most of the leases currently classified as operating leases will be reported in the balance sheet and depending

upon the circumstances of the agency there could be a significant increase in their assets and liabilities. It is expected that there would be minimal impact on net assets. Training has been provided to agencies on AASB 16 and the Accounting Policy website has guidance on transition options and an associated tool to assist with the calculations. Further guidance will be provided to agencies on post transition issues relating to AASB 16 including on leases managed by ACT Property Group.

3.3 AASB 17 INSURANCE CONTRACTS (APPL. 1 JANUARY 2021)

Background

AASB 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of AASB 17 have on the financial position, financial performance and cash flows of the entity.

Impact

AASB 17 will have no impact on directorates and most territory authorities.

3.4 AASB 1058 INCOME OF NOT-FOR-PROFIT ENTITIES (APPL. 1 JANUARY 2019)

Background

AASB 1058 clarifies and simplifies the income recognition requirements that apply to not-for-profit (NFP) entities, in conjunction with AASB 15 *Revenue from Contracts with Customers*. These standards supersede all the income recognition requirements relating to private NFP entities and the majority of income recognition requirements relating to public sector (NFP) entities, previously in AASB 1004 *Contributions*. The requirements of AASB 1058 are intended to more closely reflect the economic reality of NFP entity transactions that are not contracts with customers. The timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners related to an asset (such as cash or another asset) received by the entity.

Income that AASB 1058 Applies to

AASB 1058 establishes principles for recognising income:

- on transactions where the consideration to acquire an asset is significantly less than fair value principally to enable a not-for-profit entity to further its objectives; and
- for the receipt of volunteer services.

Asset where consideration to acquire an asset is significantly less than fair value principally to enable a not-for-profit entity to further its objectives

Generally, when an agency receives resources as a grant/donation, it will initially recognise one or more of the following in accordance with the relevant accounting standard:

- an asset;
- any liability e.g. a contract liability, financial liability, liability for obligations from transfers to the entity to acquire/construct non-financial assets to be controlled by the agency;
- contributions by owners; and/or;
- income, being the residual amount of resources after recognising one or more of the above.

Agencies must immediately recognise the difference between the fair value of the asset and any related amounts as income in the operating statement. However if the transaction enables the agency to acquire or construct a recognisable non-financial asset controlled by the agency, the agency may recognise income as it satisfies its obligations under the transfer (similar to income recognition for performance obligations under AASB 15). A transfer of a financial asset to enable an agency to acquire or construct a recognisable non-financial asset controlled by the agency is one that:

- requires the agency to use that financial asset to acquire or construct a recognisable non-financial asset to identified specifications;
- does not require the agency to transfer the non-financial asset to the transferor or other parties; and
- occurs under an enforceable agreement.

If an asset cannot be recognised under Australian accounting standards, for example cash received for research which is unable to be recognised as an asset under AASB 138 *Intangible Assets*, then relevant consideration would be recognised immediately.

Appendix B Application Guidance of AASB 1058 contains a flowchart (Chart 1) to assist in the application of these requirements.

Volunteer Services

The requirements regarding volunteer services mainly have the same scope and accounting treatment as currently applies under AASB 1004 for services received below fair value. Agencies must recognise volunteer services if:

- they would have been purchased had they not been donated; and
- the fair value of these services can be reliably measured.

What is left in AASB 1004?

While the majority of the requirements in AASB 1004 have been deleted, the residual requirements relate to:

- parliamentary appropriations;
- restructure of administrative arrangements; and
- contributions by owners and distributions to owners.

Impact

Memorandum 2018/02 *Accounting Standards effective in Future Periods – Implementation Issues for Agencies* identified actions that agencies need to carry out in their initial assessment of AASB 1058. There may be a need for system changes, a detailed review of contracts and agreements and processes to enable a successful transition to AASB 1058. Training has been provided to agencies and further detailed guidance on transition options to be used will be provided on AASB 1058.

3.5 AASB 1059 SERVICE CONCESSION ARRANGEMENTS: GRANTORS (APPL. 1 JANUARY 2020

Background

AASB 1059 addresses the accounting for a services concession arrangement by a grantor that is a public sector entity by prescribing the accounting arrangement from a grantor's perspective.

AASB 1059 applies to arrangements that involve an operator providing public services related to a service concession asset on behalf of a public sector grantor for a specified period of time and managing at least some of those services. An arrangement within the scope of this Standard typically involves an operator constructing the assets used to provide the public service or upgrading the assets (for example by increasing their capacity) and operating and maintaining the assets for a specified period of time. Such arrangements are often described as build-operate-transfer or rehabilitate-operate transfer concession arrangements or public-private partnerships (PPPs).

Impact
This standard will impact a small number of ACT Government agencies. Agencies affected are assessing the effect of this standard on their financial statements and relevant disclosures.

3.6 AASB 2014-5 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS ARISING FROM AASB 15 (APPL. 1 JANUARY 2019 FOR NOT- FOR- PROFIT AGENCIES)

Background

AASB 2014-5 makes amendments to Australian accounting standards and interpretations arising from the release of AASB 15 *Revenue from Contracts with Customers*. AASB 15 establishes the principles for reporting in financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* deferred the effective application of AASB 15 for not-for-profit agencies until reporting periods beginning on or after 1 January 2019.

Impact
Refer to the Commentary in 3.1 AASB 15 *Revenue from Contracts with Customers* above.

3.7 AASB 2014-10 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE (APPL. 1 JANUARY 2022)

Background

AASB 2014-10 amends AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:

- a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and
- a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

AASB 2017-5 *Amendments to Australian Accounting Standards – Effective date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* deferred the mandatory effective date (application date) of amendments to AASB 10 and AASB 128 made in AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2022.

Impact
Directorates and territory authorities do not generally have any investments in subsidiaries, joint ventures and associates and this standard will not have any material financial impact on them.

3.8 AASB 2016-8 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES (APPL. 1 JANUARY 2019)

Background
AASB 2016-8 inserts Australian requirements and authoritative implementation guidance for not for profit entities into AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*.

This guidance assists not-for-profit entities in applying these standards to particular transactions and other events.

The AASB 9 amendments address the initial measurement and recognition of non-contractual receivables arising from statutory requirements (e.g. taxes, fees and fines). An Appendix C is inserted that provides guidance as to whether particular transactions or other events are within the scope of AASB 9 or AASB 1058.

The AASB 15 amendments address the following aspects of accounting for contracts with customers:

- identifying a contract with a customer;
- identifying performance obligations; and
- allocating the transaction price to performance obligations.

An Appendix F is inserted that provides guidance as to whether particular transactions or other events are within the scope of AASB 15 or AASB 1058 relating to a contact and relating to identifying performance obligations.

Impact

Not-for-profit agencies will have to undertake a thorough review ~~and~~ of AASB 1058 and AASB 2016-8, noting the connection between AASB 1058 and AASB 15.

3.9 AASB 2017-1 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – TRANSFERS OF INVESTMENT PROPERTY, ANNUAL PROPERTY, ANNUAL IMPROVEMENTS 2014-16 CYCLE AND OTHER AMENDMENTS (APPL. 1 JANUARY 2019 FOR NOT-FOR-PROFIT ENTITIES)

Background

AASB 2017-1 amends:

- AASB 1 *First time Adoption of Australian Accounting Standards* to delete some short-term exemptions for first time adopters that were available only for reporting periods that have passed and to add exemptions arising from AASB 22 *Foreign Currency Transactions and Advance Consideration;*
- AASB 128 Investments in Associates and Joint Ventures to clarify that:
  - A venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture; and
  - An entity that is not an investment entity may elect to retain the fair value measurement applied by its associates and joint ventures that are investment entities when applying the equity method. This choice is available separately for each investment entity associate and joint venture; and
- AASB 140 Investment Property to reflect the principle that an entity transfers a property to, or from, investment property when, and only when, there is a change in use of the property supported by evidence that a change in use has occurred.

Impact

This standard will not impact directorates and territory authorities. For those that have investment properties they will need to ensure that a transfer to, or from, an investment property occurs only where there is evidence of a change in use not just a management intention of a change in use.

3.10 AASB 2017-4 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – UNCERTAINTY OVER INCOME TAX TREATMENTS (APPL. 1 JANUARY 2019)

Background

This standard contains consequential amendments to AASB 1 *First-time adoption of Australian Accounting Standards* arising from Interpretation 23 *Uncertainty over Income Tax Treatments.*

Impact

There is no impact on directorates and territory authorities.

3.11 AASB 2017-6 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION (APPL. 1 JANUARY 2019)

Background

This standard amends AASB 9 *Financial Instruments* to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss.

Impact

There is no impact on directorates and territory authorities

3.12 AASB 2017-7 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – LONG TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES (APPL. 1 JANUARY 2019)

Background

This standard amends AASB 128 *Investments in Associates and Joint Ventures* to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128.

Impact

There is no impact on directorates and territory authorities.

3.13 AASB 2018-1 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – ANNUAL IMPROVEMENTS 2015-17 CYCLE (APPL. 1 JANUARY 2019)

Background

This standard amends:

- AASB 3 *Business Combinations* to clarify that an entity remeasures its previously held interest in a joint operation when it obtains control of the business;
- AASB 11 *Joint Arrangements* to clarify that an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business;

- AASB 12 *Income Taxes* to clarify that an entity accounts for all income tax consequences of dividend payments according to where the entity originally recognised the past transactions or events that generated the distributable profits; and
- AASB 123 *Borrowing Costs* to clarify that an entity treats any borrowing originally made to develop a qualifying asset as part of general borrowings when the asset is ready for its intended use or sale.

Impact
There is no impact on directorates and territory authorities.

3.14 AASB 2018-2 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT (APPL. 1 JANUARY 2019)

Background
This standard amends AASB 119 *Employee Entitlements* to specify how an entity accounts for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments require an entity to use the assumptions used for the measurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the reporting period after a plan event occurs. It also clarifies that, when a plan event occurs, an entity recognises the past service cost or a gain or loss on settlement separately from its assessment of the asset ceiling.

Impact
There is no impact on directorates and territory authorities.

3.15 AASB 2018-3 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – REDUCED DISCLOSURE REQUIREMENTS (APPL. 1 JANUARY 2019)

Background
AASB 1053 Application of Tiers of Australian Accounting Standards establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. AASB 2018-3 makes amendments to AASB 16 *Leases* and AASB 1058 *Income of Not-for-Profit Entities* to establish reduced disclosure requirements for entities preparing general purpose financial statements under Australian Accounting Standards – Reduced disclosure requirements (Tier 2). Tier 2 requirements comprise the recognition and measurement requirements of Tier 1 (Australian Accounting Standards) but have substantially reduced disclosure requirements in comparison with Tier 1.

Impact
It is ACT Disclosure Policy that directorates and territory authorities that are consolidated into the whole of Government financial statements are not allowed to adopt the reduced disclosure regime. As a result, there is no impact on directorates and territory authorities.

3.16 AASB 2018-4 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT PUBLIC SECTOR LICENSORS (APPL. 1 JANUARY 2019)

Background

AASB 2018-4 amends AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases* to add requirements and authoritative implementation guidance for application by not-for-profit public sector licensors. The amendments to AASB 15 include:

- expanding the scope of AASB 15 to include non-contractual licences;
- guidance distinguishing a licence from a tax;
- guidance clarifying the types of licences issued by not-for-profit public sector licensors;
- guidance clarifying the application of the principles in AASB 15 to licences that are not within the scope of other Australian Accounting Standards; and
- providing recognition exemptions for short-term licences (a term of 12 months or less) and licences issued for a low transaction price (ACT Government agencies will apply a threshold of $10,000 to determine whether a licence has a low transaction price).

The amendments to AASB 16 clarify that licences that are in substance leases or contain leases, except licenses of intellectual property, fall within the scope of AASB 16. Revenue from licences are accounted for under AASB 15 and taxes are accounted for under AASB 1058.

Impact

There is not expected to be a material financial impact on most directorates and territory authorities.

3.17 AASB 2018-5 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – DEFERRAL OF AASB 1059 (APPL. 1 JANUARY 2019)

Background

AASB 2018-5 amends the mandatory effective date (application date) of AASB 1059 Service Concession Arrangements: Grantors so that AASB 1059 is required to be applied for annual reporting periods beginning on or after 1 January 2020 rather than 1 January 2019.

Impact

This standard will impact a small number of ACT Government agencies. Agencies affected have assessed/are assessing the effect of this standard on their financial statements and relevant disclosures. See section 3.5 for further information on Service Concession Arrangements.

3.18 AASB 2018-6 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – DEFINITION OF A BUSINESS (APPL. 1 JANUARY 2020)

Background

AASB 2018-6 amends AASB 3 Business Combinations to clarify the definition of a business, assisting agencies to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments:

- clarify that to be considered as a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;

- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Impact
The is no financial impact on directorates and territory authorities.

3.19 AASB 2018-7 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – DEFINITION OF MATERIAL (APPL. 1 JANUARY 2020)

Background
AASB 2018-7 amends the definition of material in AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments clarify the definition of material and its application by improving the wording and aligning the definition across AASB standards and other publications. The amendment also includes some supporting requirements in AASB 101 in the definition to give it more prominence.

Impact
There is no financial impact on directorates and territory authorities.

3.20 AASB 2018-8 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – RIGHT-OF-USE-ASSETS OF NOT-FOR-PROFIT ENTITIES (APPL. 1 JANUARY 2019)

Background
AASB 2018-8 amends AASB 1 *First-time Adoption of Australian Accounting Standards*, AASB 16 *Leases*, AASB 117 *Leases*, AASB 1049 *Whole of Government and General Government Sector Financial Reporting* and AASB 1058 *Income of Not-for-Profit Entities* to provide a temporary option to not apply the fair value initial measurement requirements for right-of-use assets arising under leases with significantly below-market terms and conditions used principally to enable the entity to further its objectives.

Impact
There is no financial impact on directorates and territory authorities.

3.21 AASB 2019-1 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – REFERENCES TO THE CONCEPTUAL FRAMEWORK (APPL. 1 JANUARY 2020)

Background
AASB 2019-1 sets out amendments to the Australian Accounting Standards, Interpretations and Other pronouncements to reflect the issue of the *Conceptual Framework for Financial Reporting (Conceptual Framework)* by the AASB.

The application of the *Conceptual Framework* is at present limited to:

- for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards; and
- other for-profit entities that voluntarily elect to apply the Conceptual Framework, which would permit compliance with Australian Accounting Standards (Tier 1) and International Financial Reporting Standards (IFRS Standards).

AASB 2019-1 makes amendments to Australian Accounting Standards, Interpretations and other pronouncements to permit other entities to continue using the *Framework for the Preparation and*

Presentation of Financial Statements adopted by the AASB in 2004 (*Framework*) and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* to determine whether they are a reporting entity that needs to prepare general purpose financial statements that comply with Australian Accounting Standards.

Impact
This standard will not apply to ACT Government directorates and Territory authorities and will have no financial impact on them.

3.22 AASB INTERPRETATION 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION (APPL. 1 JANUARY 2019 FOR NOT-FOR-PROFIT ENTITIES)

Background
This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it). It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value, at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

Impact
This Interpretation will not impact directorates or territory authorities.

3.23 AASB INTERPRETATION 23 UNCERTAINTY OVER INCOME TAX TREATMENTS (APPL. 1 JANUARY 2019)

Background

This Interpretation clarifies how to apply the recognition and measurement requirements in AASB 112 *Income Taxes* when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in AASB 112 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

Impact
There is no impact on directorates and territory authorities.

ATTACHMENT A

Background

Below is a copy of the 'Impact of Accounting Standards Issued but yet to be Applied' disclosure as required by directorates and territory authorities for inclusion in their 2018-19 financial statements. **However, the list of standards needs to be tailored by including only those standards that are applicable to the agency and are assessed to have a material financial impact on the agency or where the impact on the agency has not yet been assessed.**

Please note that the standards and interpretations below are applicable to 'Example Agency'. Standards appearing in red were not included in the 2018-19 Model Financial Statements, as they were issued subsequent to the issue of the Model or upon further review their inclusion is appropriate. Other standards have been deleted as their application date meant they should be removed from the list. A complete list of standards for the consideration of each agency can be found by combining the list below and the list located within the grey commentary section. Each standard and interpretation mentioned below and appearing in the grey commentary section, is discussed in this paper. New text is in red and deleted text is in ~~strikethrough~~.

APPENDIX C – IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED

- AASB 15 *Revenue from Contracts with Customers* (application date 1 January 2018 for for-profit entities, 1 Jan 2019 for not-for-profit entities);

AASB 15 is the new standard for revenue recognition. It establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces AASB 111 *Construction Contracts* and AASB 118 *Revenue*. 'Example Agency' is currently assessing the impact of this standard and has identified there could be a potential impact on the timing of the recognition of revenue. Some revenue may need to be deferred to a future reporting period if 'Example Agency' has received cash and has not met its associated performance obligations (this would create a liability until the performance obligations are met).
"'Example Agency' estimates the impact of these changes as XXXXXX" or 'Example Agency will make a detailed assessment of the impact over the next 12 months."

AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB for Not-for-Profit Entities* defers the effective date of AASB 15 for not-for-profit entities to 1 January 2019.

- AASB 16 *Leases* (application date 1 January 2019)

AASB 16 is the new standard for leases. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset value is low. This will result in 'Example Agency' recognising a number of its operating leases as assets alongside the associated liability, rather than accounting for these as operating lease expenditures. The right-of-use asset will initially be recognised at cost and will give rise to a depreciation expense. The lease liability will initially be recognised as the present value of the lease payments during the term of the lease. Lease payments made will reduce this liability over time and also result in an interest expense.
ACT Property Group as the Territory's property manager enters into all leasing contracts on behalf of the Territory. The leasing arrangements are complex and require an accounting policy decision on whether or not individual lessee agencies recognise the right-of-use asset. Treasury is in the process of assessing the leasing arrangements against the criteria in the standard and developing a whole-of-government

policy on this issue. Given the Treasury policy on this matter is pending, 'Example Agency' is not able to currently estimate the impact of AASB 16 with its accommodation leases, on its future financial statements.
At this stage 'Example Agency' has assessed that only its motor vehicles <list asset classes> will fall within the scope of AASB 16.
'Example Agency' estimates the impact of these changes as XXXXXX" or 'Example Agency will make a detailed assessment of the impact over the next 12 months."

- AASB 1058 Income of Not-for-Profit Entities (application date 1 January 2019)

This standard clarifies and simplifies the income recognition requirements that apply to not-for-profit entities in conjunction with AASB 15 *Revenue from Contracts with Customers*. These standards supersede all the income recognition requirements relating to private sector not-for-profit entities, and the majority of income recognition requirements relating to public sector not-for-profit entities, previously in AASB 1004 Contributions. 'Example Agency' has commenced consideration of the new revenue recognition requirements and has yet to finalise its assessment of their impact. Possible future impacts apparent at this time include:

- Grants received to construct non-financial assets controlled by 'Example Agency' will be recognised as a liability and subsequently recognised as revenue progressively as 'Example Agency' satisfies its performance obligations under the terms of the grant. Currently, such grants are recognised as revenue upfront;
- Other grants currently recognised as revenue upfront may be eligible to be recognised as progressively as the associated performance obligations are satisfied, if the performance obligations are enforceable and sufficiently specific 'Example Agency' has not yet evaluated its grant arrangements with the Australian Government Department of Benevolence as to whether revenue from those grants could be deferred under the new requirements.
- Grants that are not enforceable and/or not sufficiently specific will continue to be recognised as revenue (no change to current treatment).

'Example Agency' estimates the impact of these changes as XXXXXX" or 'Example Agency will make a detailed assessment of the impact over the next 12 months."

- AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 [AASB 1, 3, 4, 9 (December 2009) (December 2010), 101, 102, 112, 116, 132, 134, 134, 137, 138, 139, 140, 1023, 1038, 1039, 1049, 1053, 1056, Interpretation 12, 127, 132, 1031, 1038 & 1052] (application date 1 January ~~2018~~ 2019 for not-for-profit entities).

This standard makes consequential amendments to a number of standards and interpretations as a result of the issuing of AASB 15. 'Example Agency' is assessing the potential impact of AASB 15.

- ~~AASB 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15 (application date 1 January 2018)~~

~~This standard deferred the application date of AASB 15 *Revenue from Contracts with Customers* to 1 January 2018. AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for Profit Entities* further defers the application date of AASB 15 for not-for-profit entities until 1 January 2019. 'Example Agency' estimates the impact of these changes as XXXXXX" or 'Example Agency will make a detailed assessment of the impact over the next 12 months."~~

- ~~AASB 2016-3 Amendments to Australian Accounting Standards- Clarifications to AASB 15 (application date 1 January 2018)~~

~~This standard clarifies the existing requirements of AASB 15. 'Example Agency' is not able to estimate the impact on its financial statements. "Example Agency' estimates the impact of these changes as XXXXXX" or 'Example Agency will make a detailed assessment of the impact over the next 12 months."~~

- ~~AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-profit Entities (application date 1 January 2017, which was the original mandatory effective date of AASB 15)~~

~~This standard amends the mandatory effective date of AASB 15 for not-for-profit entities so that AASB 15 is required to be applied by these entities for annual reporting periods beginning on or after 1 January 2019 instead of 1 January 2018. At this stage 'Example Agency' is not able to estimate the impact of AASB 15 on its financial statements and will make a more detailed assessment of the impact over the next 12 months.~~

- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB 10 &128] (application date 1 Jan 2022)

This standard makes amendments to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. There is no material financial impact on 'Example Agency'.

- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities [AASB 9 & 15] (application date 1 January 2019)

This standard inserts Australian requirements and authoritative implementation guidance for not-for-profit entities into AASB 9 and AASB 15. This guidance assists not-for-profit entities in applying those standards to particular transactions and other events. The amendments to AASB 9 address the initial measurement and recognition of non-contractual receivables arising from statutory requirements (including taxes, rates and fines). The amendments to AASB 15 address the following aspects of accounting for contracts with customers: identifying a contract with a customer; identifying performance obligations; and allocating the transaction price to performance obligations.

Example Agency' estimates the impact of these changes as XXXXXX" or 'Example Agency will make a detailed assessment of the impact over the next 12 months."

- AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections (application date 1 January 2018)

This standard defers the mandatory effective date (application date) of amendments to AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* that were originally made in AASB 2014-10 *Amendments to Australian Accounting Standards –Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2022 instead of 1 January 2018. There is no material impact on Example Agency.

- AASB 2018-4 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors [AASB 15 & 16] (application date 1 January 2019)

This standard amends AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases* to add requirements and authoritative implementation guidance for application by not-for-profit public sector licensors. There is no financial impact as "Example Agency" issues licences that are ~~in the nature of taxes~~ short-term and have a low transaction price.

- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business [AASB 3] (application date 1 January 2020)

This standard amends AASB *Business Combinations* to clarify the definition of a business, assisting agencies to determine whether a transaction should be accounted for as a business combination or as an asset recognition.

There is no financial impact on 'Example Agency.'

- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material [AASB 2, 101, 108, 110, 134, 137, the Framework, and AASB Practice Statement 2] (application date 1 January 2020)

This standard principally amends AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies Changes in Accounting Estimates and Errors. The amendments refine the definition of material in AASB 101 and clarify the definition of material and its application across AASB Standards and other publications.

There is no financial impact on 'Example Agency'

- AASB 2018-8 Amendments to Australian Accounting Standards – Right -of- Use Assets of Not-for-Profit Entities [AASB 1, AASB 16, AASB 117, 1049 & 1058 (application date 1 January 2019)

AASB 1058 Income of Not-for-Profit Entities made amendments to AASB 16 to require not-for-profit agencies to measure right-of-use assets at initial recognition at fair value in respect of leases that have significantly below market terms and conditions principally to enable the agency to further its objectives.

However, the AASB has decided to provide a temporary option for not-for-profit agencies to not measure a class or classes of such right-of-use assets at initial recognition at fair value, since further guidance is expected to be developed to assist not-for-profit agencies in measuring right-of-use assets at fair value.

There is no financial impact on 'Example Agency.'

APPENDIX C - COMMENTARY

The listing of standards and the associated commentary is to assist agencies to make the necessary disclosures. Agencies should make their own assessment on the impact and relevance of the standards listed to their financial statements, bearing in mind that they should only disclose those standards and amending standards that are expected to have a material impact on them or where they have not yet assessed their impact.

The Model does not contain a complete list of standards issued but not yet applicable. Instead it contains those standards not yet applicable which will most likely apply to most agencies (as at June 2019). This is because agencies do not have to include standards that would never apply to them (e.g. AASB 129 *Financial Reporting in Hyperinflationary Economies*). As such, most agencies will be able to simply use the list contained in the model note, disclosing only the standards that are expected to have a material impact on them or where they have not yet assessed the impact of a standard.

Agencies need to assess each new and amended standard issued but not yet applicable and disclose if their adoption is likely to have a significant impact. The 'Example Agency' impacts are indicative and agencies need to make their own assessment. Further guidance on this is included in the Accounting Policy on *Treatment of AASB Standards issued which are not yet effective as at 30 June 2019* issued in July 2018. Agencies should review this policy in assessing the impact of standards that released but are not yet effective as at 30 June 2019 for disclosure in their 2018-19 financial statements.
For the information of agencies, the additional standards issued but not yet applicable (as at 30 June 2019 which are not included in the Model Note disclosures are:

- AASB 17 *Insurance Contracts* (application date 1 January 2021);
- AASB 1059 *Service Concession Arrangements: Grantors** (application date 1 January 2020);

*This standard will impact a small number of ACT Government agencies.

- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments* [AASB 1, AASB 128 & AASB 140] (application date 1 January 2019 for not-for-profit entities);
- AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments* [AASB 1] (application date 1 January 2019);
- AASB 2017-6 *Amendment to Australian Standards –Prepayment features with Negative Compensation* [AASB 9] application date 1 January 2019;
- AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures* [AASB 128] (application date 1 January 2019);
- AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle* [AASB 3, AASB 11, AASB 112 & AASB 123] (application date 1 January 2019);
- AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement* [AASB 119] (application date 1 January 2019);
- AASB 2018-3 *Amendments to Australian Accounting Standards – Reduced Disclosure Requirements* [AASB 16 & AAASB 1058] (application date 1 January 2019);
- AASB 2018-5 Amendments to Australian Accounting Standards – Deferral of AASB 1059 (application date 1 January 2019);
- AASB 2019-1 *Amendments to Australian Accounting Standards – Refences to the Conceptual Framework* [covers numerous Accounting standards, Interpretations and Pronouncements] (application date 1 January 2020).
- AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration (application date 1 Jan 2019 for-not-for-profit entities); and
- AASB Interpretation 23 Uncertainty over Income Tax Treatments (application date 1 Jan 2019).

Note, it is recommended that agencies review the above standards to ensure they do not apply to that agency.