AADP 307

ACT ACCOUNTING DISCLOSURE PAPER

ON

THE 2021-22 AASB STANDARDS ISSUED BUT YET TO BE APPLIED

FOR THE REPORTING PERIOD ENDED 30 JUNE 2022

Chief Minister, Treasury and Economic
Development Directorate

Updated Policy start date: June 2022

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1. INTRODUCTION

1.1 APPLICATION

1.1.1 Background

This disclosure paper covers Australian Accounting Standards and Interpretations which have been issued as at June 2022 that are yet to be applied. These standards and interpretations will apply during the 2022-23 reporting period or later reporting periods.

1.1.2 Agencies Covered by this Paper

This disclosure paper applies to ACT Government Agencies, that is directorates and territory authorities.

1.1.3 Contact

If you have any questions regarding this paper, please do not hesitate to contact the Financial Reporting and Framework (FRF) Branch to provide further clarification. Contact details are listed on the Accounting in the ACT website: https://apps.treasury.act.gov.au/accounting/.

1.1.4 Update to this Disclosure Paper

The FRF Branch will provide an update to this paper in July, where new standards are issued in June 2022. However, additional standards may be issued which are not yet applicable between 30 June 2022 and the date of signing of the financial statements and therefore these standards may need to be included in an agency's financial statements. As such, agencies should monitor for any further standards issued after the FRF Branch releases the July paper until their financial statements are signed. If there are any further standards issued during this time, agencies need to assess each standard issued but not yet applicable and disclose these standards in Note 3 of their financial statements if they are relevant and if their adoption is likely to have a material financial impact or their financial impact cannot yet be assessed.

2. TREATMENT OF AASB STANDARDS ISSUED BUT YET TO BE APPLIED

2.1 DISCLOSURES REQUIRED FOR STANDARDS ISSUED BUT YET TO BE APPLIED

When a directorate or territory authority has not early adopted a new accounting standard, and the standard is mandatorily effective in a later reporting period, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of details regarding the adoption of that standard. This includes the potential financial impact on the financial statements which may occur when the standard is applied. AASB 108 para 30 and 31 contain the disclosure requirements.

This disclosure paper has been developed to assist agencies in making these disclosures. It provides an indication of what changes have been included in standards which have been issued but are yet to be applied. 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;**
2. **Assess whether there may be a material financial impact upon the agency by reviewing the changes listed in this paper <u>and</u> referring directly to the standards and/or interpretations (this assessment should be clearly documented in audit work papers);**
3. **Only disclose details of the standards and interpretations which apply and are assessed as having a material financial impact on them, or if the impact is not known or not reasonably estimable. If the impact is not known or cannot be reasonably estimated, then this should be documented along with the reason why this is the case. It is important to note that it is not sufficient for an agency to state that the impact isn't known because an assessment hasn't been undertaken yet. There needs to be a valid reason for why the agency hasn't been able to perform the assessment; 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.**

Agencies should refer to the 2021-22 Model Financial Statements as well as Section 3 and **<u>Attachment A</u>** of this Disclosure Paper which provide the disclosure guidance agencies need to be aware of when preparing their 2021-22 Financial Statements.

It is important for each agency to verify that this assessment is correct for their circumstances.

3. SUMMARIES OF CHANGES TO STANDARDS AND INTERPRETATIONS ISSUED BUT YET TO BE APPLIED

The below are all standards and interpretations, currently issued by the AASB, which apply to reporting periods beginning on or after 1 July 2022:

AASB 17	*Insurance Contracts;*
AASB 2014-10	*Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;*
AASB 2020-1	*Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current;*
AASB 2020-3	*Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and other Amendments;*
AASB 2020-6	*Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date;*
AASB 2021-2	*Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates;*
AASB 2021-5	*Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction;*
AASB 2021-6	*Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards;*
AASB 2021-7	*Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections;*
AASB 2022-1	*Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information; and*
AASB 2022-3	*Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15.*

3.1 RELEVANT STANDARDS THAT ARE CONSIDERED NOT TO HAVE A MATERIAL FINANCIAL IMPACT ON MOST AGENCIES

The following standards are considered relevant to most ACT Government agencies, however it is considered that they will not have a material financial impact on most ACT Government agencies.

3.1.1 AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current (originally appl. 1 January 2022 however now appl. 1 January 2023 due to the issue of AASB 2020-6)

Background

AASB 2020-1 amends AASB 101 *Presentation of Financial Statements* to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. It applies to annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. However, the AASB has recently issued AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date* which defers the application date by one year to periods beginning on or after 1 January 2023.

The amendments outlined in this standard clarify that a liability is classified as non-current if, at the end of the reporting period, an agency has the right to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified in these amendments.

Impact

This standard is not expected to have a material financial impact on most directorates and territory authorities.

3.1.2 AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments (appl. 1 January 2022)

Background

AASB 2020-3 amends:

- AASB 1 *First-time adoption of Australian Accounting Standards* to simplify the application of AASB 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences;
- AASB 3 *Business Combinations* to update a reference to the *Conceptual Framework for Financial Reporting* without changing the accounting requirements for business combinations;
- AASB 9 *Financial Instruments* to clarify the fees an agency includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability;
- AASB 116 *Property, Plant and Equipment* to require an agency to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended

use and the related cost in profit or loss, instead of deducting the amounts received from the cost of the asset;

- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* to specify the costs that an agency includes when assessing whether a contract will be loss-making; and
- AASB 141 *Agriculture* to remove the requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in AASB 141 with those in other Australian Accounting Standards.

Impact

This standard is not expected to have a material financial impact on most directorates and territory authorities.

3.1.3 AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date (appl. 1 January 2022)

Background

AASB 2020-6 amends AASB 101 *Presentation of Financial Statements* to defer requirements for the presentation of liabilities in the statement of financial position as current or non-current that were added to AASB 101 in AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current (March 2020)*. Those requirements will now be compulsory for annual reporting periods beginning on or after 1 January 2023 instead of 1 January 2022, with earlier application permitted.

Impact

This standard defers the application of AASB 2020-1 by one financial year, and as such will not have a material financial impact on directorates and territories authorities.

3.1.4 AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates (appl. 1 January 2023)

Background

AASB 2021-2 amends:

- AASB 7 *Financial Instruments: Disclosures* to clarify that information about measurement bases for financial instruments is expected to be material to an agency's financial statements;
- AASB 101 *Presentation of Financial Statements* to require agencies to disclose their material accounting policy information rather than their significant accounting policies;
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify how agencies should distinguish changes in accounting policies and changes in accounting estimates;

- AASB 134 *Interim Financial Reporting* to identify material accounting policy information as a component of a complete set of financial statements; and
- AASB Practice Statement 2 *Making Materiality Judgements* to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Impact

This standard is not expected to have a material financial impact on most directorates and territory authorities.

3.1.5 AASB 2022-3 Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15 (appl. 1 July 2022)

Background

AASB 2022-3 amends AASB 15 by adding Illustrative Example 7A to the attachment to AASB 15 to clarify the accounting for upfront fees. The amendments do not change the requirements of AASB 15. The amendments are relevant only to not-for-profit entities.

Impact

This standard is not expected to have a material financial impact on most directorates and territory authorities.

3.2 STANDARDS THAT ARE NOT CONSIDERED APPLICABLE TO MOST AGENCIES

It is considered that the following Standards do not apply to most ACT Government agencies.

3.2.1 AASB 17 Insurance Contracts (originally appl. 1 January 2021 however now appl. 1 January 2023 due to issue of *AASB 2020-5*)

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 agencies 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 the standard have on the financial position, financial performance and cash flows of the agency. AASB 17 reflects the view that an insurance contract combines features of both a financial instrument and a service contract.

AASB 17 does not apply to superannuation entities applying AASB 1056 *Superannuation Entities* and not-for-profit public sector agencies. The AASB is assessing the applicability of AASB 17 to not-for-profit public sector agencies, including the possible need for modifications to facilitate that application.

The AASB has recently released ED 319 *Insurance Contracts in the Public Sector* which seeks to modify some of the requirements in AASB 17 for not-for-profit public sector entities and then requires these entities to apply AASB 17. At this stage it is proposed not-for-profit public sector agencies would apply AASB 17 to annual periods beginning on or after 1 July 2025, with earlier application permitted. This is later than the application date of AASB 17 to entities that are not public sector entities, which is annual periods beginning on or after 1 January 2023.

Impact

Currently AASB 17 will not apply to directorates and territory authorities. However, if the proposals in ED 319 are implemented then the amended AASB 17 will apply to some ACT Government agencies to the annual periods beginning on or after 1 July 2025 (which is currently being proposed).

3.2.2 AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (originally appl. 1 January 2022 however now appl. 1 January 2025 due to issue of *AASB* 2021-7)

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 as such this standard will not apply to most agencies. Directorates and territory authorities that do have investments in subsidiaries, joint ventures and associates will need to assess the impacts of this standard.

3.2.3 AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (appl. 1 January 2023)

Background

This Standard amends AASB 112 to clarify the accounting for deferred tax on transactions that, at the time of the transaction, give rise to equal taxable and deductible temporary differences. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. The amendments clarify that the exemption does not apply to transactions for which entities recognise both an asset and a liability and that give rise to equal taxable and deductible temporary differences. This may be the case for transactions such as leases and decommissioning, restoration and similar obligations. Entities are required to recognise deferred tax on such transactions.

The Standard amends AASB 1 to require deferred tax related to leases and decommissioning, restoration and similar obligations to be recognised by first-time adopters at the date of transition to Australian Accounting Standards, despite the exemption set out in AASB 112.

Impact

Directorates and territory authorities do not generally have any deferred tax on transactions and as such this standard will not apply to most agencies. Directorates and territory authorities that do have deferred tax on transactions will need to assess the impacts of this standard.

3.2.4 AASB 2021-6 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards (appl. 1 January 2023)

Background

AASB 2021-6 amends:

(a) AASB 1049 to require entities to disclose their material accounting policy information rather than their significant accounting policies;

(b) AASB 1054 to reflect the updated terminology used in AASB 101 which is primarily related to disclosing their material accounting policy information rather than their significant accounting policies; and

(c) AASB 1060 to require entities to disclose their material accounting policy information rather than their significant accounting policies and to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements.

Impact

This standard will not apply to most directorates and territory authorities. This is because the changes in:

- AASB 1049 relate to the WoG financial statement reporting;

- AASB 1054 relate to not-for-profit private sector entities that prepare special purpose financial statements; and
- AASB 1060 relate to Tier 2 reporting, and it is ACT Disclosure Policy that agencies that are consolidated into the Whole-of-Government financial statements are not allowed to adopt Tier 2 reporting.

3.2.5 AASB 2021-7 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections (appl. 1 January 2022, appl. 1 January 2023 and appl. 1 January 2025 – see below for further details)

Background

AASB 2021-7 makes the following changes:

- editorial corrections to various Australian Accounting Standards, including Interpretations, and other pronouncements (appl. 1 January 2022);
- editorial corrections to AASB 17 *'Insurance Contracts'* (appl. 1 January 2023); and
- amends AASB 2014-10 *'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'* by deferring the application date of amendments to AASB 10 and AASB 128 that were originally made in AASB 2014-10. The amendments are now required to be applied for annual reporting periods beginning on or after 1 January 2025 instead of 1 January 2022.

Impact

This standard will not apply to most directorates and territory authorities, with the exception of some of the editorial corrections to various Australian Accounting Standards (although these corrections will not have a material financial impact on directorates and territory authorities).

Directorates and territory authorities that do have investments in subsidiaries, joint ventures and associates do not have to apply AASB 2014-10 until annual reporting periods beginning on or after 1 January 2025.

3.2.6 AASB 2022-1 Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information (appl. 1 January 2023)

Background

AASB 2022-1 amends AASB 17 to add a transition option referred to as 'a classification overlay' relating to comparative information about financial assets presented on initial application of AASB 17 and AASB 9 '*Financial Instruments'* at the same time. The amendments relate to financial assets for which comparative information presented on initial application of AASB 17 and AASB 9 has not been restated for AASB 9. Applying the transition option would permit an entity to present comparative information about such a financial asset as if the classification and measurement requirements of AASB 9 had been applied to that financial asset. This enables insurers to reduce potentially significant accounting mismatches between financial assets and insurance contract liabilities in the comparative period (or periods), to improve the usefulness of the comparative information in the general purpose financial statements.

Impact

This standard will not apply to most directorates and territory authorities.

ATTACHMENT A – 2021-22 MODEL FINANCIAL STATEMENT DISCLOSURES FOR STANDARDS ISSUED BUT YET TO BE APPLIED

Background

Given that none of the standards issued but yet to be applied will impact most directorates and territory authorities, these agencies can use the below 'Impact of Accounting Standards Issued but yet to be Applied' example disclosure in their 2021-22 financial statements. This example disclosure has not changed from that included in the 2021-22 Model Financial Statements. **Please note – where there is one or more of these standards that do apply to an agency and have a material financial impact or where the impact on the agency has not yet been assessed the example disclosure must be tailored to include the detail of the standards that are applicable to that agency.**

The disclosure below is applicable to 'Burley Griffin Agency'. A complete list of standards for the consideration of each agency can be found in Section 3 of this paper, and each of these standards and interpretations are also discussed in Section 3.

EXAMPLE DISCLOSURE

Reference

NOTE 3. IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED

AASB 101.10(e)

The information below applies to both the Controlled and Territorial financial statements.

All Australian Accounting Standards and Interpretations issued but yet to be applied are applicable to future reporting periods. These standards have been assessed as not being relevant to 'Burley Griffin Agency' or having a material financial impact on 'Burley Griffin Agency'.

AASB 108.30 & 31

'Burley Griffin Agency' has early adopted AASB 2021/2 *Amendments to Australian Accounting Standards – Disclosure to Accounting Policies and Definitions of Accounting Policies and Definition of Accounting Estimates*. This change requires the Agency to disclose its material accounting policy information rather than its significant accounting policies. This change does not have a material impact on the financial statements. For all other Australian Accounting Standards issued but yet to be applied, they will be adopted from their application date.

Commentary – Note 3: Impact of Accounting Standards Issued but yet to be Applied

The above example disclosure and this associated commentary is to assist agencies to make the necessary disclosures in their financial statements. Agencies should make their own assessment on the impact and relevance of the standards, 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.

There are no 'Standards Issued but Yet to be Applied' listed in the disclosure above, as it is considered that none of these standards will be applicable to most agencies, or if applicable, will not have a material financial effect. These standards have not been disclosed because agencies do not have to include standards that would never apply to them (e.g. AASB 129 *Financial Reporting in Hyperinflationary Economies*) or that do not have a material financial impact on them. As such, most agencies will be able to simply use the disclosure wording included in this note for their own financial statements.

It is recommended that agencies review all the standards issued but yet to be applied to ensure these standards do not apply to them or they do not have a material financial impact.

Chief Minister, Treasury and Economic
Development Directorate

June 2022