Tasmanian Audit Office

Changes for 30 June 2018 and New Standards (AASBs 107, 15, 1058, 9)

Jeff Tongs

Director Technical and Quality

Statement of Cash Flows

AASB 2016-2
Amendment to AASB 107

- Applies on or after 1 January 2017
  - i.e. 30 June 2018 this year!
  - Prospective

- Requires disclosure of information relating to financing liabilities and related financial assets (if any)

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AASB 2016-2 – Example Reconciliation

Notes to Statement of Cash Flows

Reconciliation of liabilities arising from financing activities

		Non-Cash Changes				Cash Flows		
Liabilities	**Closing Balance 2017 $'000**	**Transfers to/(from) other Government Entities $'000**	**New Leases Acquired $'000**	**Change in Fair Value $'000**	**Other (Specify) $'000**	**Cash Received $'000**	**Cash Repayments $'000**	**Closing Balance 2018 $'000**
Leases	2,000	-	150	-	-	-	(100)	2,050
Borrowings	4,000	-	-	-	-	700	(500)	4,200
Other (Specify)	-	-	-	-	-	-	-	-
Total	**6,000**	**-**	**150**	**-**	**-**	**700**	**(600)**	**6,250**

AASB 15 Revenue from Contracts with Customers

Effective Date – Year beginning on or after	30 June Year-end
1 January 2019 (Not-for-profit)	30 June 2020

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Core Principle

Recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The 5 Revenue Steps

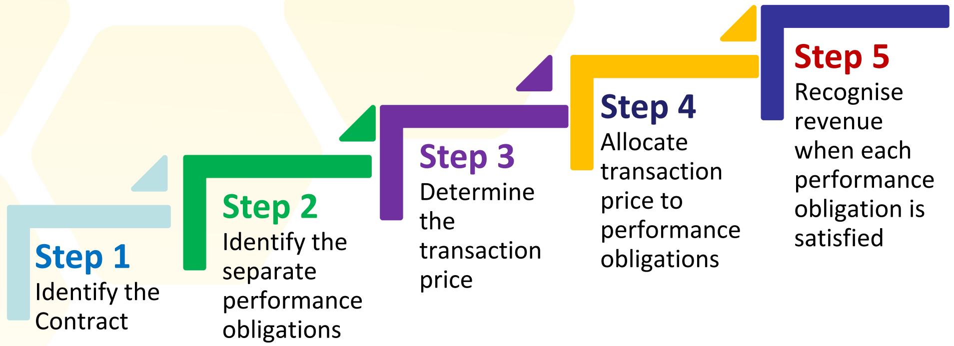
Step 1
Identify the Contract

Step 2
Identify the separate performance obligations

Step 3
Determine the transaction price

Step 4
Allocate transaction price to performance obligations

Step 5
Recognise revenue when each performance obligation is satisfied



The 5 Revenue Steps

1. Identify the contract(s) with a customer

- Package with a single commercial objective
- Including contract modifications
- Principal vs. agent

2. Identify the performance obligations in the contract(s)

- What are you promising to deliver?
  – Distinct goods or services, or distinct bundle
- *Unit of account* determines when revenue is recognised

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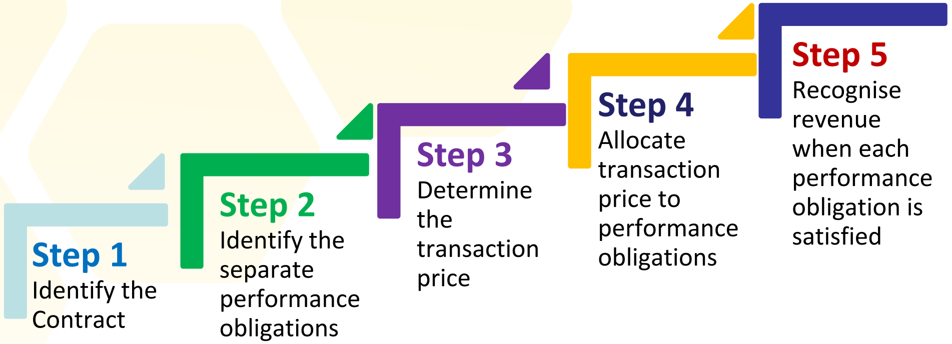


The 5 Revenue Steps

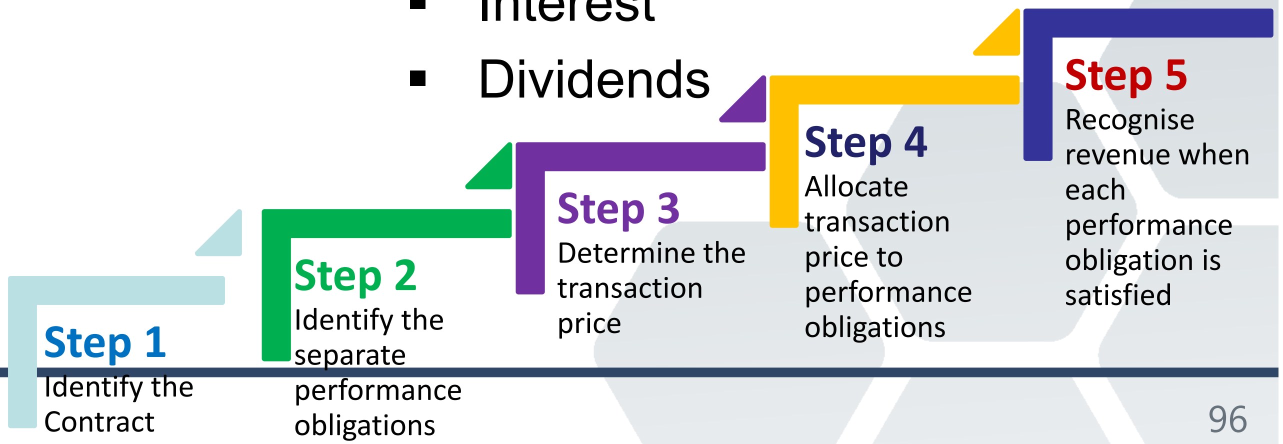
3. Determine the transaction price
    - Variable consideration—bonuses, penalties, discounts, concessions
    - Constraint—highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur'

4. Allocate the transaction price to the performance obligations
    - Dealing with *bundles*

5. Recognise revenue as each performance obligation the is satisfied
    - Over time (e.g. construction services) , or
        – Measuring progress
    - At a point in time (e.g. sale of goods)

Revenue and Income Sources

- Appropriations
- Grants – Recurrent
- Grants – Special purpose
- Grants – Capital
- Fees
- Levies
- User charges
- Fees for service
- Sale of goods
- Licences
  - Right of Use
  - Right of access
- Royalties
- Performance management fees
- Contributed services
- Capital contributions / contributed assets
- Sponsorship
- Taxes
- Interest
- Dividends



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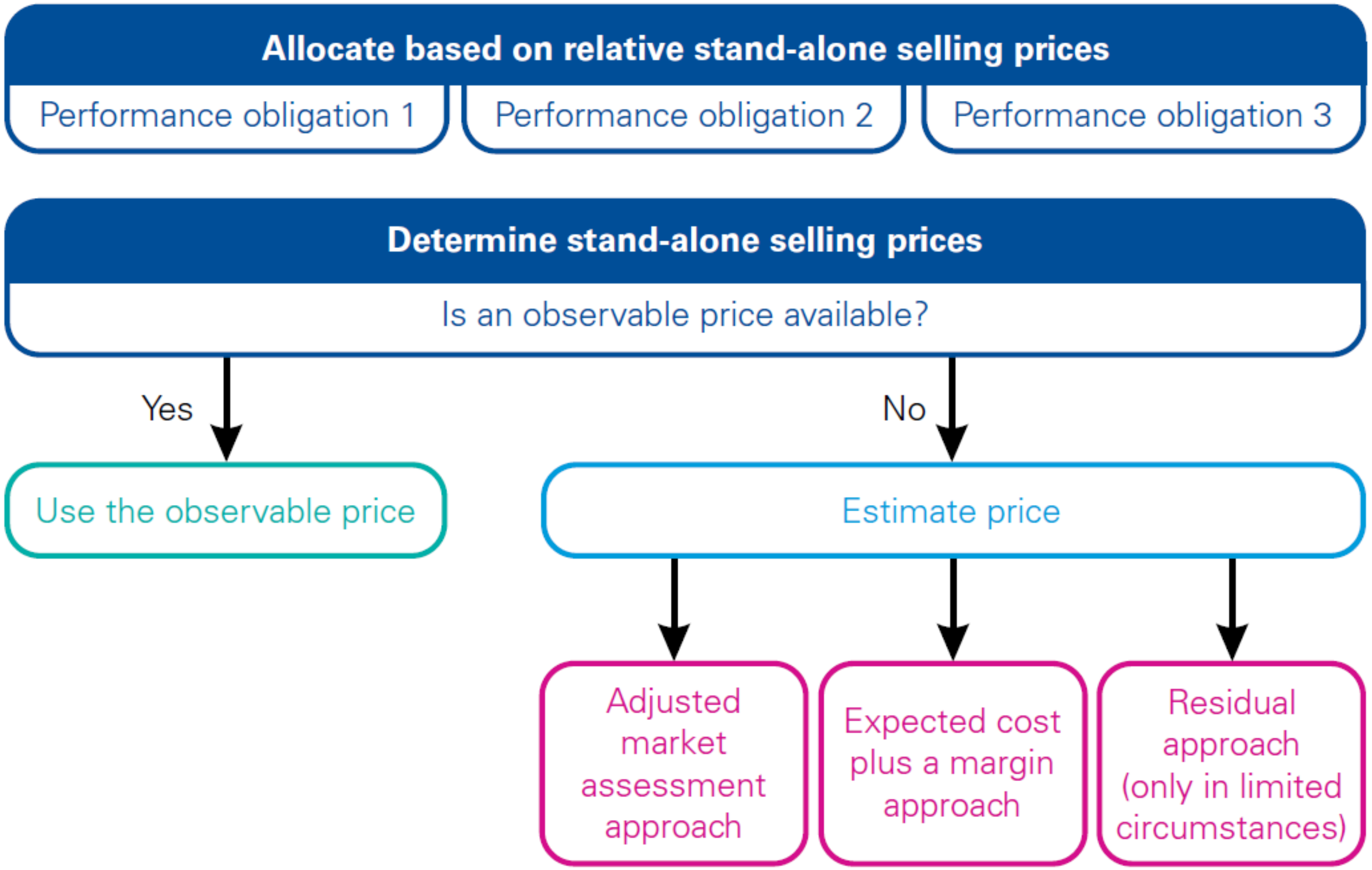
Allocating performance obligations based on stand alone selling prices



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Allocation based on a stand-alone selling price

- An entity has a contract to sell equipment, provide training and operate a helpdesk.
- Each of these has been assessed to be separate performance obligations.
- The total transaction price is $1,200,000.

The stand-alone selling price for each distinct good or service is:

Equipment	$750,000	50%
Training	$150,000	10%
Helpdesk	$600,000	40%
Total of stand-alone prices	**$1,500,000**	

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Allocation based on a stand-alone selling price

- The total transaction price is allocated to each service performance obligation as follows:

Equipment	Point in time	600,000	1,200,000 x 50%
Training	Over time	120,000	1,200,000 x 10%
Helpdesk		480,000	1,200,000 x 40%
Total transaction price		**$1,200,000**	

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Revenue Issues

- Performance obligation satisfaction
  - Point in time
  - Over time
- Dealing with bundles
- Determining and allocating stand alone price
- Principal versus agent
- Contract costs
- Options and material rights
- Breakage
- Significant financing component
- Non-cash consideration
- Payments to customers

- Discounts
- Variable components
- Refund liabilities
- Warranties
- Repurchase agreements
- Bill-and-hold arrangements
- Right of return exists
- Onerous contracts
- Licences of intellectual property
- Non-refundable up-front fees
  - Joining fees
  - Activation fees in utilities
  - Set-up/registration fees

AASB 15 – Transition is Retrospective

Two approaches allowed:

1. Fully Retrospectively application, *with some relief*
   - Need not restate completed contracts that begin and end within the same period
   - Hindsight allowed for variable consideration of completed contracts
   - Prior to application, need not disclose information on remaining performance obligations in comparatives.
2. Retrospectively with cumulative effect at date of initial application:
   - Apply the Standard to all existing contracts as of effective date and to contracts entered into subsequently
   - Recognise the cumulative effect as an adjustment to the opening balance of retained earnings

AASB 15 – Disclosures

- Key qualitative and quantitative disclosures:
  - Contract balances
  - Disaggregation of revenue
  - Costs to obtain or fulfil contracts
  - Remaining performance obligations
  - Significant judgements and changes in judgements

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AASB 1058 *Income of Not-for-Profit Entities* – Objective

Establishes principles that apply to:

(a) transactions where the consideration to acquire an asset is significantly less than fair value principally to enable the NFP to further its objectives

(b) the receipt of volunteer services.

AASB 1058: *Income of Not-for-Profit Entities* – Key Areas

1. Assets received below fair value
2. Transfers received to acquire or construct non-financial assets
3. Grants
4. Non-contractual statutory income
5. Peppercorn leases
6. Volunteer services

Consideration for asset significantly less than fair value + furthers NFP objectives

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Example

AASB 1058 – Grants

Example:

A NFP receives a Gov't grant of $2.4m on 31 May 20X8, which is refundable if the money is not spent in the period 1 July 20X8 to 30 June 20X9.

- It's charter is to provide counselling to victims of violence and emergency accommodation to the homeless; and
- It has an agreement that specifies the grant must be spent providing crisis counselling services for a given number of hours per week for the entire year ending 30 June 20X8. The entity expects to fulfil its promise.

Example

AASB 1058 – Grants

Example - journal entries:

Initial recognition - 31 May X8	**Debit**	**Credit**
Cash	2,400,000	
Contract Liability		2,400,000
Year 2 – 20X9		
Contract Liability	2,400,000	
Expenses	2,400,000	
Cash		2,400,000
Income		2,400,000

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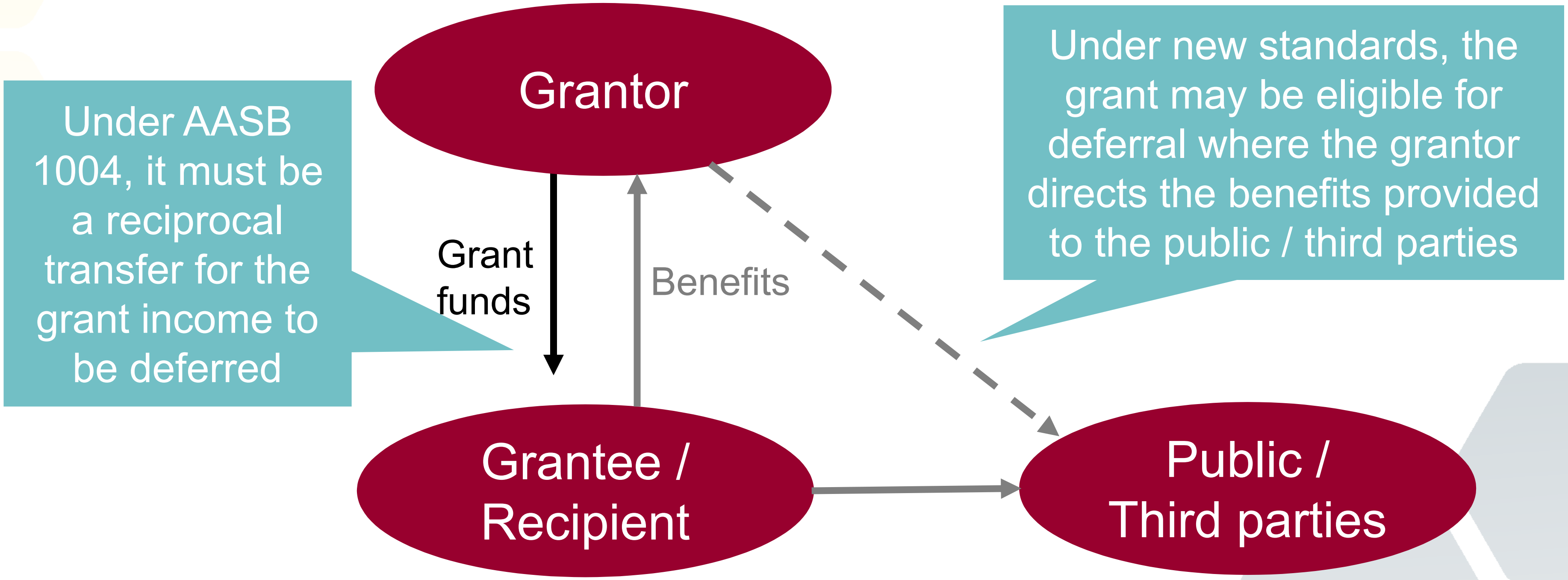
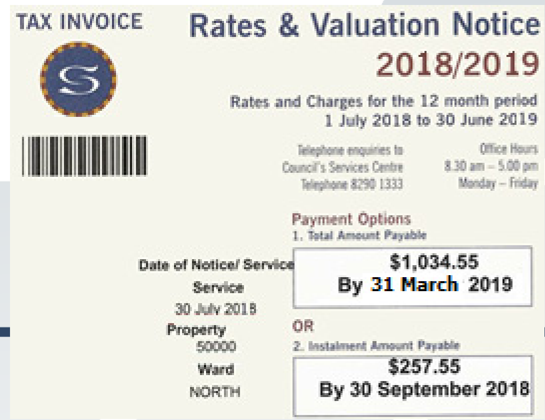
Revenue Recognition Changes
Accounting for Grant Income



AASB 1058 – Non-contractual Income arising from Statutory Requirements

- Disclose statutory income (rates, taxes & fines)
- Disaggregated into categories that reflect how the nature and amount of income are affected by economic factors
- Statutory receivables initial recognition to be part of AASB 9 *(AASB 2016-8)*
- Can be a receivable or a liability
- Example:
  – prepaid taxes or rates for which the *taxable event* has yet to occur



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AASB 1058 – Peppercorn Leases

- Where a NFP lessee has a lease that at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives, the NFP entity shall :
  - Measure the right-of-use asset at fair value
  - Measure the lease liability at the present value of lease payments not paid at that date
  - Recognise any related items in accordance with AASB 1058 (i.e. the difference)

Example

AASB 1058 – Peppercorn Leases

Example:

- An entity built on land leased to it for $10pa for 99 years
- Present value of remaining lease payments is $100
- Fair value of the right of use land is $2m
- The entity had not previously recognised the right-of-use asset for land or a lease liability.

Example

AASB 1058 – Peppercorn Leases

Example:

- The entity is reporting for the period ending 30 June 2020.

Treatment on transition:

Journal entry 1 July 2019	**Debit**	**Credit**
Right-of-use asset - land	2,000,000	
Lease Liability		100
Opening retained earnings		1,999,900

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AASB 1058 – Volunteer Services

- Local governments, government departments, general government sectors and whole of governments must recognise an inflow of resources where:
  - they would have been purchased if they had not been donated; and
  - the fair value of those services can be measured reliably.
- Any other NFP can elect
- Disclosure of additional qualitative information is encouraged

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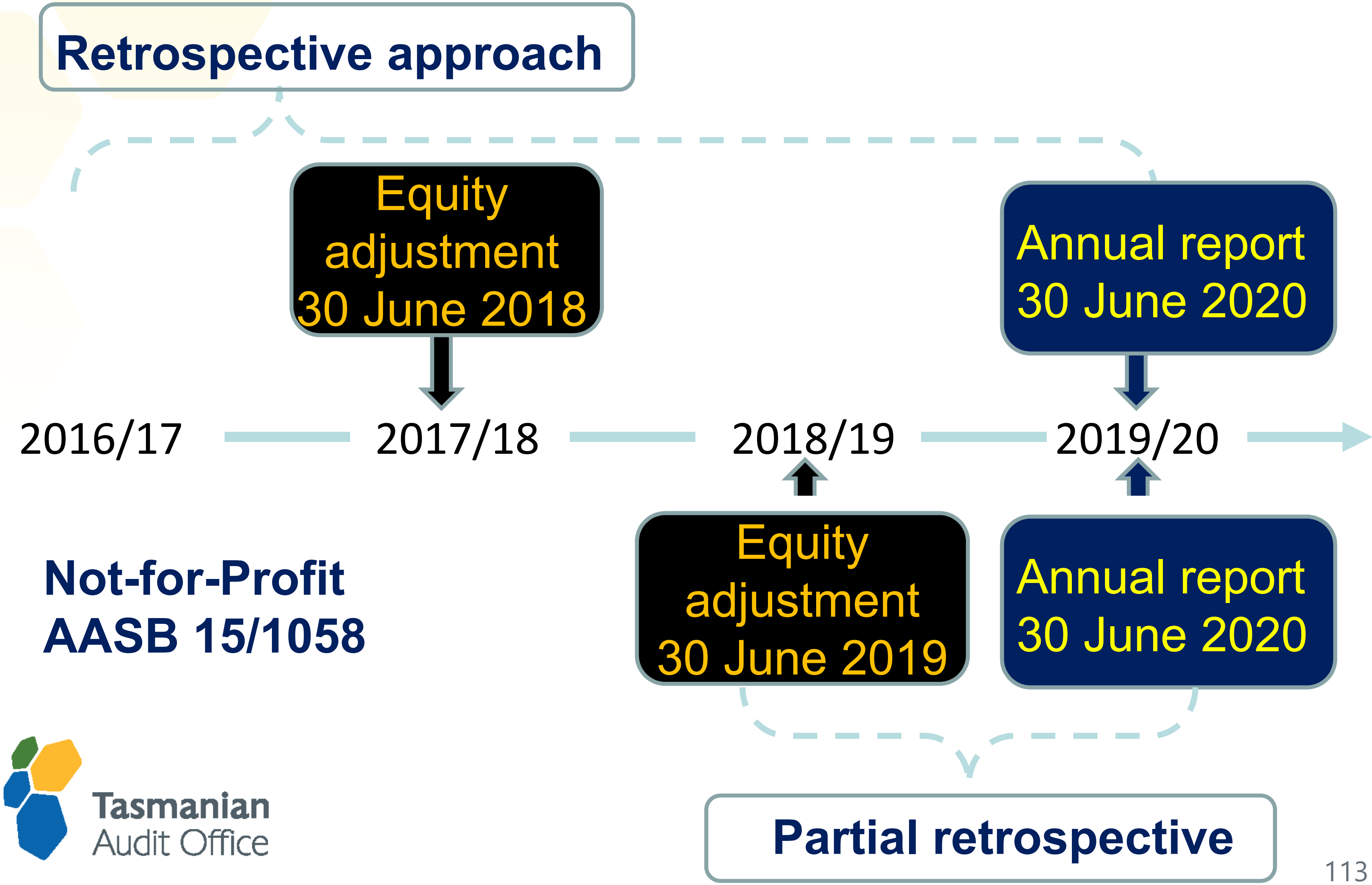
Full retrospective vs partial retrospective timeline



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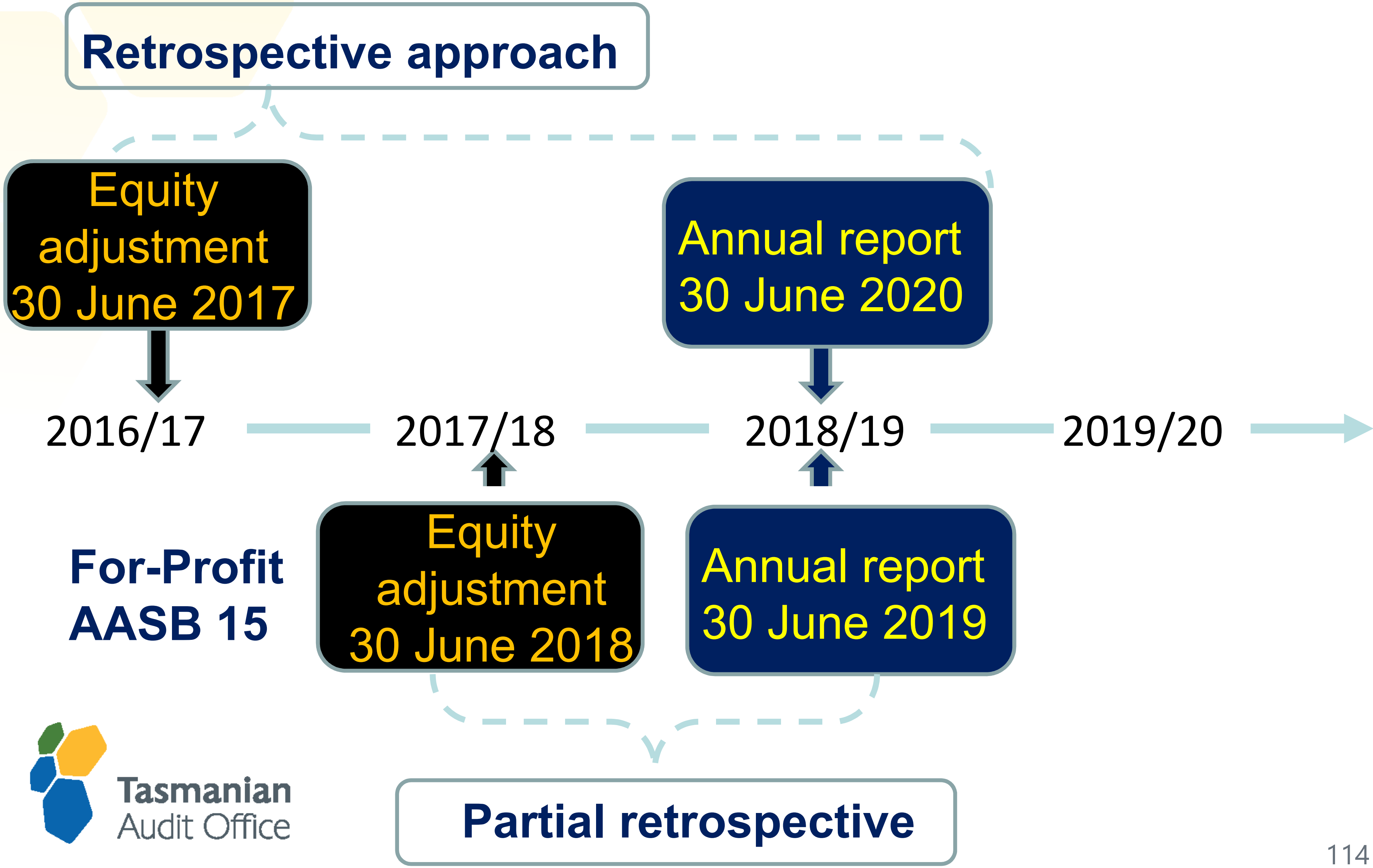
Full retrospective vs partial retrospective timeline



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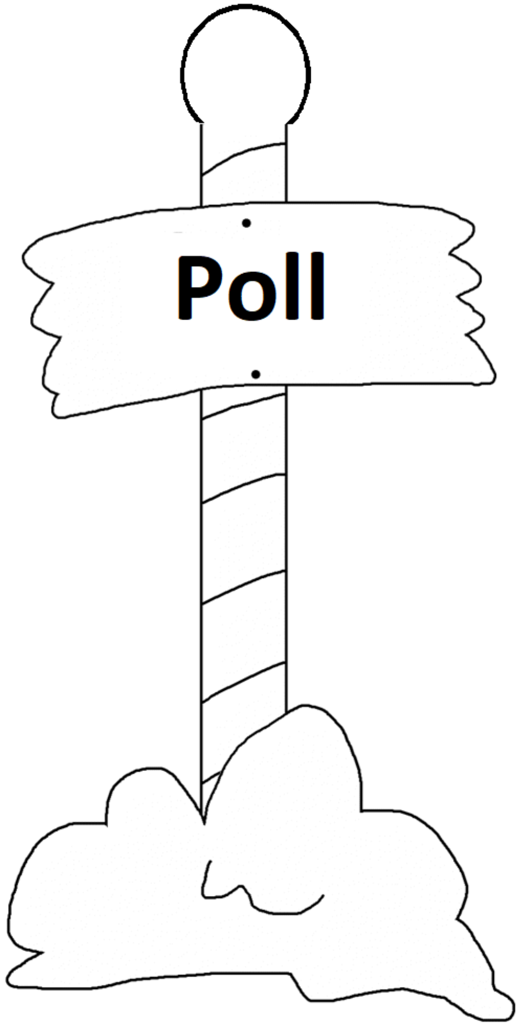
Poll

AASB 9: *Financial Instruments*
- Categories of Financial Assets

AASB 139 Categories of Financial Assets

- Fair Value Through Profit or Loss (FVTPL)
- Loans and Receivables
- Held to Maturity (HTM)
- Available-For-Sale (AFS)*

AASB 9 Categories of Financial Assets

- Amortised Cost
- FVTPL *
- FVOCI (Debt Instruments & Recycling)
- FVOCI (Equity Instruments & No Recycling)

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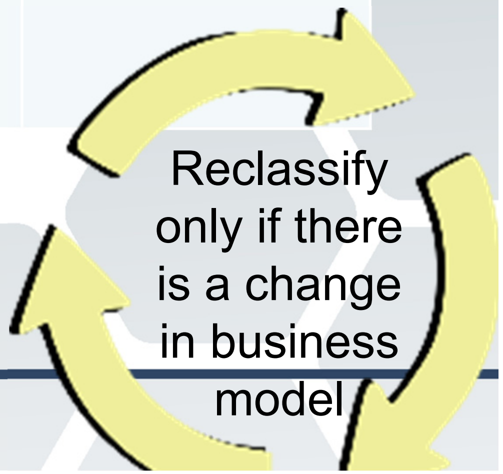
* Residual category

Types of Asset Business Models

An entity's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

Business Models	Key features	Measure at
Held-to-collect	• Entity holds assets to collect contractual cash flows • Sales are incidental to the objective (e.g. Trade Receivables, loans..)	Amortised cost
Held both to collect and for sale	• Both collecting contractual cash flows and sales are integral to achieving the objective of the business model (e.g. Debt instruments)	FVOCI
Others	• Assets are neither held-to-collect nor held to collect and for sale (e.g. Shares held for trading)	FVTPL



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AASB 9 – Simplified Impairment

Example provision matrix:

	Current	1–30 days past due	31–60 days past due	61–90 days past due	More than 90 days past due
Historic default rate	0.2%	1.3%	3.0%	5.7%	9.6%
Forward-looking estimate	0.1%	0.3%	0.6%	0.9%	1.0%
Total default rate	0.3%	1.6%	3.6%	6.6%	10.6%

Historical & Forward - looking

	Trade receivables A	**Expected credit loss** B	**Impairment allowance** AxB
Current	15,000	0.3%	45
1–30 days past due	7,500	1.6%	120
31–60 days past due	4,000	3.6%	144
61–90 days past due	2,500	6.6%	165
More than 90 days past due	1,000	10.6%	106
	30,000		**580**

AASB 9 – Financial Liabilities

- All financial liabilities to be measured at amortised cost using the effective interest method

except for:

- Financial liabilities at fair value through profit of loss
  - Held for trading
  - designated

AASB 9 – Transition

- Applies on or after 1 January 2018 (i.e. 30 June 2019)
- Full retrospective classification – restatement of comparative periods
  - Not applied to items already de-recognised at the date of initial application
  - Must reclassify all financial instruments (retrospective)
  - Must revoke previous designations that don't meet designation provisions for AASB 9
  - May designate if meet provisions of AASB 9
- Pragmatic - comparatives not required to be restated (reconciliation required)

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Accounting standards issued but not yet effective

Disclose:

- the title, nature of change and application date
- the date the entity plans to apply the Standard
- a discussion of the impact; or
- if impact is not known or reasonably estimable, a statement to that effect.

(AASB 108)

Be wary of disclosures that:

"there will be no material impact"

Do you have sufficient appropriate audit evidence to support such a statement?

Revised Conceptual Framework

- March 2018 - IASB issued its Revised Conceptual Framework – applies reporting periods on or after 1 January 2020
- Two Problems
  - “Reporting Entity” concept clash
  - Special Purpose Financial Statement problem

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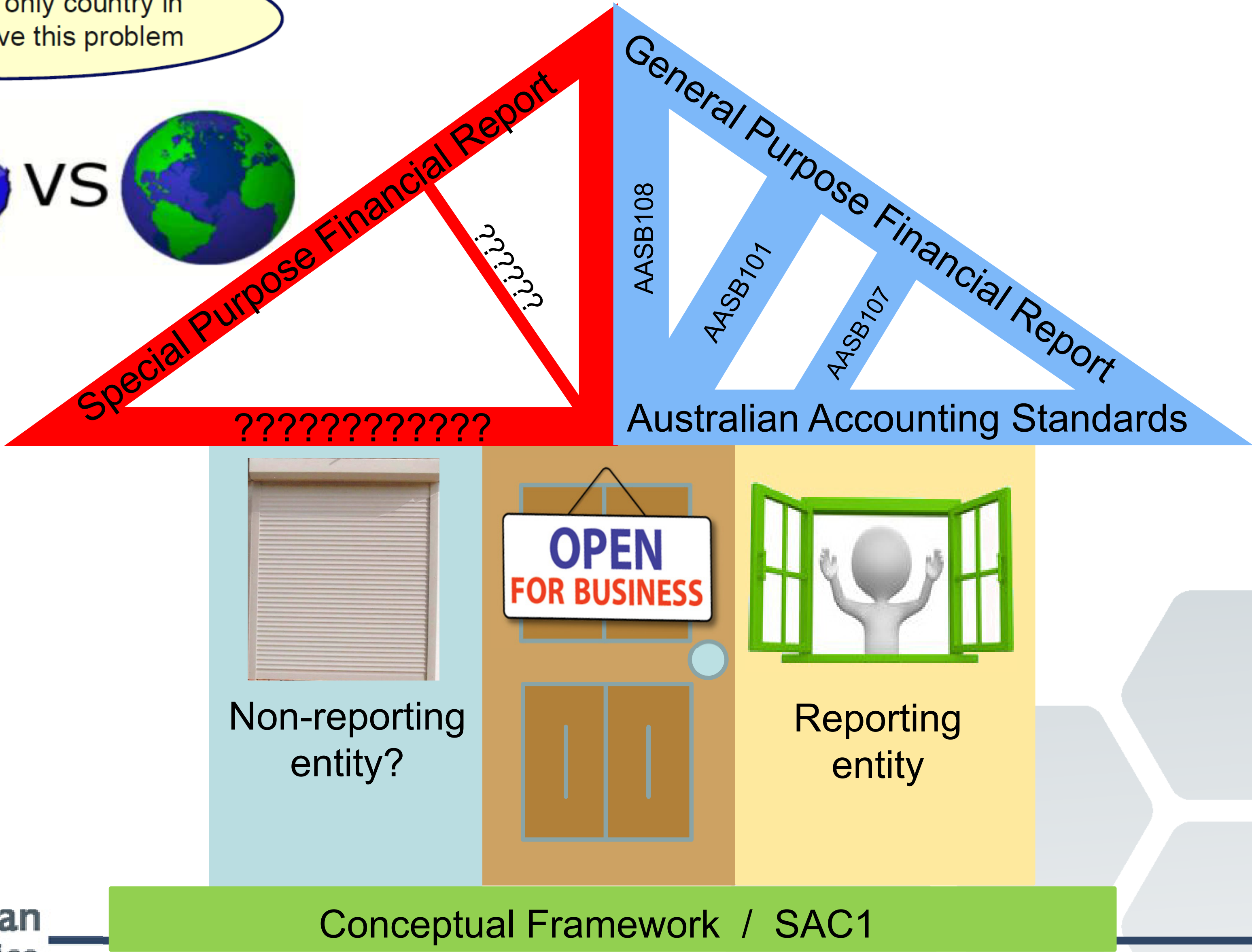
Framework


Australia is the only country in the world to have this problem
VS


General Purpose Financial Report
Special Purpose Financial Report
??????
AASB108
AASB101
AASB107
????????????
Australian Accounting Standards
OPEN FOR BUSINESS
Non-reporting entity?
Reporting entity
Conceptual Framework / SAC1


RIP
SPFS
1 Jan 2020

The AASB's preferred solution

Two-phased approach

Phase 1:Short-term approach

- Publicly accountable for-profit entities and other entities who voluntarily comply with IFRS
- RCF / amendments issued 2018
- Amendments effective 1 Jan 2020

Phase 2: Medium-term approach

- All other entities
- Extensive consultation 2018-2020
- RCF / amendments issued 2020
- Amendments effective TBD (For-profits and Not-for-profits staggered implementation?)

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The AASB's preferred solution: Phase 2 (Medium-term approach)

Action	Benefits
Apply RCF to all entities required by legislation or otherwise to comply with AAS	✓ IFRS compliance ✓ IFRS as a base
Remove SAC 1 and amend AAS to remove Australian reporting entity concept	✓ Resolves reporting entity definition clash ✓ Resolves self-assessment issue
Alternative 1: Retain existing Tier 2 GPFS – RDR framework; **OR** Alternative 2: Adopt a new Tier 2 GPFS – SDR framework	✓ Resolves SPFS problem ✓ Improves trust and transparency

Allows time for extensive consultation, research and transitional support