Perspective

This is one of a series of articles where experts in assurance, reporting and regulatory matters discuss recent technical and policy developments in these areas

NFPs and Simplified Disclosures

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November 2021

Simplified Disclosures are the new kid on the block. They will replace 'reduced disclosures' and will be applicable to both the for-profit and not-for-profit sectors. This article describes the **what, who, when and how** of simplified disclosures as they are relevant to NFPs and answers some frequently asked questions.

What

Simplified Disclosures have been introduced into legislation with AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. They apply to financial years commencing on or after 1 July 2021.

This standard has replaced the existing 'Reduced Disclosure Regime' (RDR) which will no longer be able to be adopted for Tier 2 general purpose financial statements from this date.

Unlike the existing RDR framework which highlights the areas of reduced disclosures through 'shading' within individual standards and appendices, the Simplified Disclosures standard presents all required disclosures in a separate, stand-alone standard. Entities applying Simplified Disclosures are therefore exempt from the disclosure requirements in all other standards, including standards that deal with only presentation and disclosures (such as AASB 101 *Presentation of Financial Statements*).

Who

This new standard (AASB 1060) applies to:

- For-profit entities; and
- Not-for-profit entities,

that currently prepare Tier 2 general purpose financial statements or are required to prepare general purpose financial statements for the first time.

There are two tiers of general purpose financial statements provided for within Australian Accounting Standards, as follows:

- Tier 1 which is applicable to entities that are publicly accountable (includes listed entities, entities that are in the process of listing and entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses); or
- Tier 2 which is applicable for entities that are not publicly accountable.

Most NFPs that are reporting entities (see FAQ below) would generally fall into the category of Tier 2 and therefore produce Tier 2 general purpose financial statements.

When

The new standard is applicable for financial years commencing on or after 1 July 2021, although it can be adopted early.

There are some limited incentives to adopting the standard early for NFPs that have previously prepared financial statements under the Reduced Disclosure Regime. When the standard is adopted early (i.e. before its mandatory application date) a comparative disclosure is not required for any new disclosure requirements within the standard.

For example, the audit remuneration disclosure is not required under the Reduced Disclosure Regime but is required by the simplified disclosure standard. Therefore, if the new standard is adopted for 31 December 2021 year ends (i.e. it is adopted early) the audit remuneration disclosure must be made in the current year column, but a comparative number is not required if it was not previously disclosed.

How

In order to 'convert' your financial statements from an RDR format to a simplified disclosure format you should follow the steps below:

1. Compare your previous year financial statement disclosures directly with AASB 1060 or illustrative 'simplified disclosure' financial statements (refer to the CA ANZ *Enhancing Not-for-Profit Reporting* illustrative guidance identified in the further guidance below).
2. Delete those disclosures no longer required; and
3. Highlight gaps in the disclosures where you will have to collate additional information to provide extra disclosures under the simplified disclosure format.

Alternatively, you can use financial statements software that has Simplified Disclosures as a presentation option and allow the software to generate AASB 1060 compliant financial statements.

You also should remember to update the wording in the basis of preparation and the directors'/responsible entity declarations, stating that the report complies with Simplified Disclosures.

FAQs

I have prepared special purpose financial statements in prior years, can I continue to do this?

NFPs that are not reporting entities can continue to prepare special purpose financial statements if appropriate to user needs. However, when a NFP is a reporting entity, they must produce general purpose financial statements. This reporting entity concept, as we have known and applied it over many years, still exists for NFPs for now. This assessment must be revisited every reporting date to determine the appropriate financial statements to prepare. The FAQ below and CA ANZ 's *Continuing Special Purpose fact sheet* (link provided in the further guidance section below) provides more detail on making this decision.

What is a reporting entity?

A reporting entity is an entity for whom it is reasonable to expect the existence of users that would rely on the general purpose financial statements for the purposes of allocating resources. A general purpose financial report is intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Statement of Accounting Concept 1 *Definition of a Reporting Entity* sets out factors to be considered by the board in assessing the needs of users (i.e. stakeholders). The factors to consider (as outlined in Decision Tree 2 in the CA ANZ *Enhancing Not-for-Profit Reporting* illustrative guidance identified in the further guidance below) as relevant for NFP entities are:

- How widespread the NFP's stakeholders are?
- Whether management is separated from the NFP's stakeholders?
- Whether the NFP has a significant impact on the broad community or represents a broad group (considering activities and economic significance)?
- Whether the NFP is in receipt of government or philanthropic grants and/or reliant on donations or is a tax deductible gift recipient?

It is important to note the determination as to whether a NFP is a reporting entity or not requires judgement and must be reached by the Board or governing body of the organisation and it is not a decision determined by the auditor (although the auditor must be satisfied that judgement has been applied appropriately in determining the reporting framework).

Do I have to comply with the recognition and measurement of all Australian Accounting Standards when complying with the Simplified Disclosure Standard?

Yes, all general purpose financial statements are required to comply with the recognition and measurement requirements of all Australian Accounting Standards.

What are the key differences between RDR and Simplified Disclosures?

Additional disclosures include:

- General information (registered office, principal place of business and principal activities)
- Details of financial asset and financial liability fair value measurements

- Borrowings – terms and conditions of long-term debt (unlikely to be applicable to NFPs)
- Lease liabilities – future lease payments
- Remuneration of auditors
- Business combinations – qualitative description for goodwill
- Interests in subsidiaries – significant restrictions.

Disclosures that are removed include:

- Prior period reconciliations for equity
- Fair value hierarchy
- Business combinations – acquisition costs
- Interests in associates – commitments.

There is also an option available to not include a separate statement of changes in equity in certain circumstances – for NFPs this will be when the only changes to equity during the current and prior period arise from profit or loss, corrections of prior period errors and changes in accounting policies. In this case, instead of the two statements – one being the statement of profit or loss and other comprehensive income and the other being the statement of changes in equity – one statement can be presented called a 'statement of income and retained earnings'. Where a NFP uses a revaluation reserve or similar reserve this simplified presentation format is not allowable.

Are simplified disclosures really simpler?

This depends on what you are comparing Simplified Disclosures to. It is simpler than presenting Tier 1 general purpose financial statements. However, it is arguable whether it is simpler than the existing RDR framework. The Simplified Disclosures standard is based on an international standard called 'IFRS for SMEs' and was developed in response to criticisms that RDR did not provide sufficient disclosure relief.

Further guidance

- CA ANZ has released its updated *Enhancing Not-for-profit Reporting* guide - Download here. In contains updated illustrative financial statements for financial years ending 30 June 2022 (or it can be adopted early) showing NFPs how the Simplified Disclosures are applied in a NFP context. This type of financial statements, being that adopting the Simplified Disclosures Standard, will be the preferred general purpose financial statements adopted in the NFP sector.

- Factsheet on 'Important Changes to the Australian Financial Reporting Framework for Not-for-Profits' (June 2021) – Download here.

- Fact sheet on "Considerations when Preparing Special Purpose Financial Statements in Australia - Download here