New Tier 3 Simplified Accounting framework for not-for-profit (NFP) entities

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The Australian Accounting Standards Board (AASB) has introduced significant changes to the financial reporting framework for many registered charities, companies limited by guarantee and other NFP entities.

From 1 July 2029, the reforms will:

i) Prevent certain NFP entities to prepare special purpose financial statements (SPFS); and

ii) Introduce a new Tier 3 general purpose financial statements (GPFS) framework, providing eligible NFP entities with a simplified alternative to Tier 1 Australian Accounting Standards and Tier 2 Simplified Disclosures.

AASB 1061 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* establishes the new Tier 3 framework, with simplified recognition, measurement, presentation and disclosure requirements designed to provide a more proportionate general purpose financial reporting framework for eligible NFP entities.

From 1 July 2029, the general purpose financial reporting framework for private sector NFP entities will comprise:

a) Tier 1 – full compliance with Australian Accounting Standards;

b) Tier 2 – Simplified Disclosures in accordance with AASB 1060; and

c) Tier 3 – Simplified Accounting in accordance with AASB 1061.

For NFP entities currently preparing SPFS, these changes make it important to understand which reporting tier may apply and what will be required to transition.

Who can apply AASB 1061?

AASB 1061 can be applied by NFP private sector entities that do not have public accountability and that are not prohibited from applying Tier 3 reporting requirements by legislation, their constituting document, or another document.

However, eligibility under AASB 1061 does not, by itself, establish that an entity may use Tier 3. The determination of which NFP private sector entities may use Tier 3 will be subject to the requirements of relevant State and Federal regulators.

At the date of this publication, neither the Australian Securities & Investments Commission (ASIC), the Australian Charities and Not-for-profits Commission (ACNC) nor the Office of the Registrar of Indigenous Corporations (ORIC) have indicated whether AASB 1061 will be permitted or prohibited for different categories of NFP entities they regulate.

We recommend that NFP entities do not early adopt AASB 1061 until the relevant regulator confirms whether Tier 3 financial statements will be accepted.



What are the key requirements of AASB 1061?

Stand-alone accounting standard

Unlike Tier 2 reporting, which requires entities to apply the recognition and measurement requirements contained throughout the wider suite of Australian Accounting Standards, AASB 1061 brings recognition, measurement, presentation and disclosure requirements together in a single standard.

What financial statements are required?

Entities applying AASB 1061 will prepare a complete set of GPFS comprising:

- Statement of financial position
- Statement of financial performance
- Statement of changes in equity
- Statement of cash flows
- Notes, comprising material accounting policy information and other explanatory information to the financial statements

In certain circumstances, a statement of income and retained earnings may be presented instead of separate statements of financial performance and changes in equity.

Simplified recognition and measurement

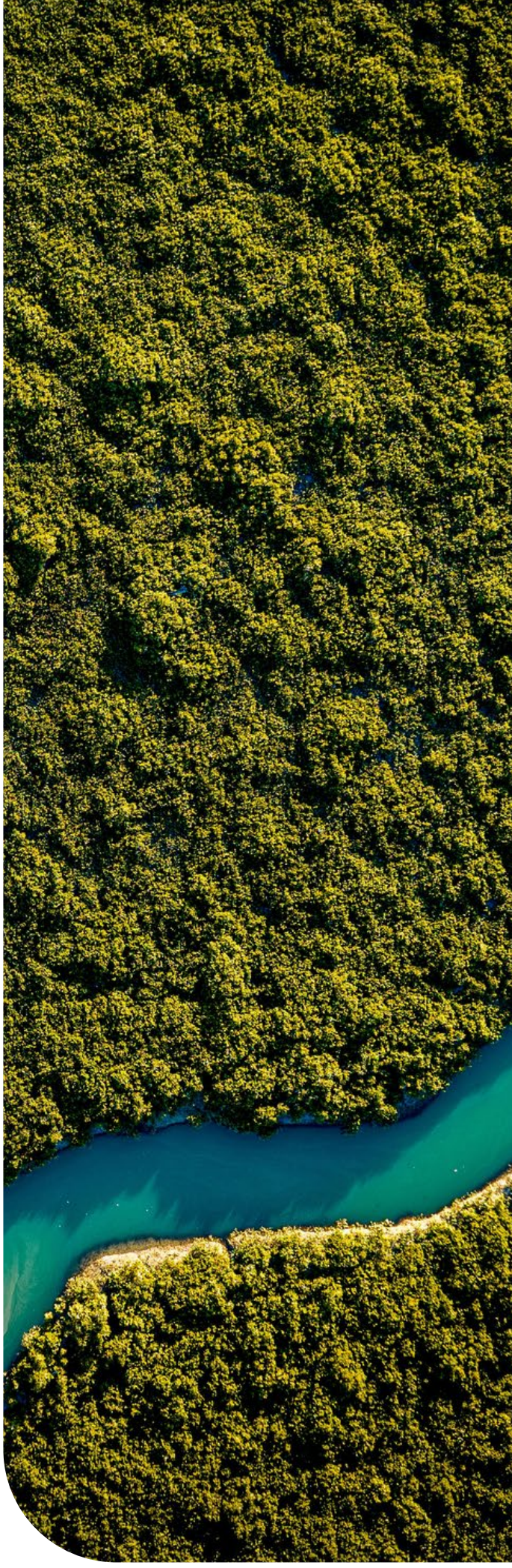
The AASB applied a cost-benefit approach to designing Tier 3, focusing on the information needs of users of smaller NFP entities. As a result, a number of accounting treatments have been simplified compared with higher reporting tiers.

The AASB identified several categories of simplification, including:

- Omission of requirements expected to be uncommon for smaller NFP entities
- Simplified recognition and measurement requirements for certain items
- Additional accounting policy choices in certain areas
- Simpler drafting and application guidance.

Reduced disclosure burden

While AASB 1061 continues to require meaningful disclosures, the standard substantially reduces disclosure requirements compared with higher reporting tiers. The objective is to provide information users need without imposing disproportionate compliance costs.



Key measurement differences: Tier 3 Simplified Accounting vs Tier 2 Simplified Disclosures

The following table describes the key measurement and recognition differences between Tier 3 simplified accounting under AASB 1061 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* and Tier 2 financial statements under AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

Area	Tier 2 (AASB 1060)	Tier 3 (AASB 1061)
Recognition and measurement	Follows Tier 1 full Australian Accounting Standards	Includes simplified recognition and measurement requirements in numerous areas
Income recognition from grants and donations	Apply AASB 15 where an enforceable agreement contains sufficiently specific promises; otherwise AASB 1058 applies	Record deferred revenue (liability) if the entity and the transferor have 'a common understanding' that the entity will perform in a particular manner. Revenue is recognised as the commitment is satisfied
Deferred grant revenue	• Deferral generally depends on identifying enforceable sufficiently specific performance obligations • Certain capital grants are dealt with under AASB 1058	Record deferred revenue (liability) if the entity and the transferor have 'a common understanding' that the entity will perform in a particular manner. Revenue is recognised as the commitment is satisfied
Consolidation	Apply AASB 10 to determine control and consolidation requirements	Election to present: i) consolidated financial statements in accordance with AASB 10, or ii) separate financial statements in which subsidiaries, associates and jointly controlled entities are measured at either cost, fair value or using the equity method
Lessee accounting	Apply AASB 16 recognition and measurement – recognise right-of-use asset and lease liability	Recognise lease payments (including costs for services such as insurance and maintenance) as an expense over the lease term on a straight-line or another systematic basis
Lessor accounting	• Apply AASB 16 recognition and measurement • Different accounting treatment applied for leases classified as operating or finance leases	• No distinction between operating leases and finance leases • Lease income (excluding costs for services such as insurance and maintenance) recognised over the lease term on a straight-line or another systematic basis
Donated inventory	Recognised at current replacement cost where the consideration for those inventories is significantly less than fair value principally to enable the entity to further its objectives	Election to measure either: i) at cost, or ii) current replacement value

Area	Tier 2 (AASB 1060)	Tier 3 (AASB 1061)
Donated non-financial assets	Recognised at fair value where the consideration for the asset is significantly less than fair value principally to enable the entity to further its objectives	Election to measure either: i) at cost, or ii) fair value
Basic financial instruments	• Transaction costs and upfront fees incurred are generally included in the measurement of the asset and liability • Concessional loans initially measured at fair value • Apply AASB 9 classification and measurement to financial assets and financial liabilities	• Transaction costs and upfront fees incurred are expensed immediately • Concessional loans initially measured at transaction price • Financial assets held to generate both income and a capital return are measured at fair value, all other financial assets and financial liabilities measured at cost
Equity investments	Equity investments measured at fair value through profit or loss unless the irrevocable FVOCI election is available and made	Applies Tier 2 requirement except that unlisted equity investments can be carried at cost in certain circumstances
Employee benefit liabilities	Apply AASB 119 measurement requirements to short-term, long-term and post-employment benefits	All employee benefits measured at the undiscounted amount of the benefit expected to be paid in exchange for past services, using pay rates applicable at the reporting date
Impairment	Apply AASB 136 indicators of impairment and measurement basis, including identification of cash generating units	• Assess for impairment only in limited circumstances (e.g. physical damage or obsolescence) • Impairment is assessed at an individual asset level • Simplified value in use calculation
Other topics	Requires Tier 1 measurement and recognition	Omits certain uncommon or complex topics and transactions. Preparers refer to Tier 1 requirements for topics not addressed in the Tier 3 standard

For entities currently preparing SPFS, the impact of moving to Tier 3 will depend on their existing accounting policies and the extent to which these differ from the Tier 3 recognition and measurement requirements.

Transition

AASB 1061 contains detailed transition requirements, the impact of which will vary depending on whether a NFP entity is transitioning to Tier 3 from SPFS or Tier 2 Simplified Disclosures.

An entity's date of transition is the beginning of the current reporting period – meaning comparative financial information need not be restated. However, in their first year of adoption an entity can elect to restate comparative financial information to reflect the Tier 3 measurement and recognition requirements.

In broad terms, the transition process can be illustrated as follows:

1. Apply Tier 3 R&M

- Recognise assets and liabilities required by Tier 3
- Derecognise assets and liabilities prohibited by Tier 3
- Apply Tier 3 measurement to all assets and liabilities

2. Elect exemptions (one or more)

- Deemed cost for certain assets
- Restate deferred revenue
- Previous entity combinations
- Prior period errors
- Restating some comparatives

3. Disclosures

- Describe changes in accounting policies
- Describe transition exemptions applied
- May elect to include reconciliations of equity and profit from previous framework to Tier 3



What does this mean for entities currently preparing SPFS?

The introduction of AASB 1061 forms part of a broader reform package aimed at removing the ability for certain NFP entities to prepare SPFS for financial years commencing on or after 1 July 2029.

Those NFP entities that previously produced SPFS may need to transition to either:

a) Tier 3 – Simplified Accounting in accordance with AASB 1061,

b) Tier 2 – Simplified Disclosures in accordance with AASB 1060, or

c) Tier 1 – full compliance with Australian Accounting Standards.

The appropriate reporting tier will depend on regulatory requirements and eligibility criteria.

What should NFP entities do now?

While the new requirements do not take effect until reporting periods beginning on or after 1 July 2029, NFP entities should start considering what the changes could mean for their financial reporting.

Organisations currently preparing SPFS should assess whether they will be required to prepared GPFR from 1 July 2029 and if so:

- Identify which reporting tier may apply from 1 July 2029;
- Review their existing accounting policies to identify potential differences under Tier 3;
- Consider whether systems, processes or financial information will need to change; and
- Monitor further guidance from relevant regulators.

Starting this assessment early can help organisations identify potential accounting, systems and governance impacts and allow more time to prepare for the transition.

For more information on the broader reforms, read our article, *Changes to financial reporting for NFP entities*.

For assistance on how AASB 1061 and the broader NFP financial reporting reforms may affect your organisation, contact your trusted Nexia Advisor.

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