



Proposed removal of the 'reporting entity concept' from Australian Accounting Standards



By Darryn Rundell (</people/darryn-rundell>) - July 6, 2018

[Recommend](#) 0



[Share](#)

[Tweet](#)

In May 2018, the Australian Accounting Standards Board (AASB) released an Invitation to Comment (ITC) outlining its intention, and preferred approach, to the removal of the 'reporting entity concept' from Australian Accounting Standards.

How will this impact Australian financial reporting?

Removing the 'reporting entity concept' from Australian Accounting Standards would remove the ability for entities to prepare special purpose financial statements (when required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards).

This will have a significant impact on those entities that currently prepare special purpose financial statements to satisfy legislative, or other reporting requirements.

Why remove the 'reporting entity concept'?



The main catalyst for change is the release of a revised Conceptual Framework by the International Accounting Standards Board (IASB) in March 2018, which describes the objectives and concepts for general purpose financial reporting under International Financial Reporting Standards (IFRS). The IASB's revised Conceptual Framework contains a definition of 'reporting entity' that differs from the existing Australian definition currently included in Australian Accounting Standards.

Existing definition in Australian Accounting Standards	IASB definition in the revised Conceptual Framework
"An entity in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources."	"An entity that is required, or chooses, to prepare financial statements."

To enable Australian entities to continue to report (mandatorily or voluntarily, as the case may be) in compliance with IFRS, the AASB must adopt the revised Conceptual Framework in Australia. In doing so, the IASB's definition of 'reporting entity' will replace the existing Australian definition in Australian Accounting Standards.

The IASB's definition of 'reporting entity' does not include consideration of the expectation of the existence of users dependent on general purpose financial statements to satisfy their information needs. The definition states simply that each entity that is required, or chooses to prepare financial statements is a 'reporting entity'. Consequently, under the proposed changes, those entities that are required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards will be required to prepare general purpose financial statements.

In addition to addressing the 'reporting entity' definition clash, a secondary reason for change relates to the considered role and authority of the AASB. In this regard, the AASB does not believe it has the authority to determine who must, should, or could prepare financial statements.

The AASB believes that whether or not an entity is required to prepare financial statements is a matter to be determined by legislation or other requirement such as constitutional documents, and not by the AASB. The considered role of the AASB is to determine the appropriate accounting framework and accounting standards to be applied in the preparation of financial statements (for those entities that are required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards). Consequently, the AASB now believes it is inappropriate for the current Australian 'reporting entity concept' to remain within Australian Accounting Standards.

How will Australian Accounting Standards apply under the proposed changes?

Under the proposed changes, when an entity is required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards, the entity will be required to prepare general purpose financial statements that comply with the full recognition and measurement requirements, and the disclosure requirements, of:

- all Australian Accounting Standards ('Tier 1' general purpose reporting), for those entities that have 'public accountability' (as defined in AASB 1053 Application of Tiers of Australian Accounting Standards); or
- Australian Accounting Standards – Reduced Disclosure Requirements ('Tier 2' general purpose reporting), for those entities that do not have 'public accountability'.

This will have a significant impact on those entities that currently prepare special purpose financial statements to satisfy legislative, or other, reporting requirements.

Is the AASB proposing any action to mitigate the financial reporting impact?

To partly mitigate the increased financial reporting burden of the proposed changes on some affected entities, the AASB intends to replace the current 'Reduced Disclosure Requirements' framework ('Tier 2' general purpose reporting) with a new 'Specified Disclosure Requirements' framework (proposed alternative 'Tier 2' general purpose reporting).

Although the proposed alternative 'Specified Disclosure Requirements' framework would still require the general purpose financial statements to comply with the full recognition and measurement requirements of all Australian Accounting Standards, the proposed alternative framework is expected to reduce the disclosure requirements for 'Tier 2' general purpose reporting.

The proposed 'specified disclosure requirements' are those contained in the following Australian Accounting Standards:

- AASB 15 *Revenue from Contracts with Customers*
- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 112 *Income Taxes*
- AASB 124 *Related Party Disclosures*
- AASB 136 *Impairment of Assets*
- AASB 1048 *Interpretation of Standards*
- AASB 1054 *Australian Additional Disclosures*

In addition, the AASB will continue to work with legislators, regulators, and other key stakeholders as part of its Australian Financial Reporting Framework project to help regulators determine:

- which entities need to prepare financial statements in accordance with Australian Accounting Standards;
- what the thresholds and criteria should be for the different tiers of reporting; and
- which entities need to publicly lodge financial statements?

When are the proposed changes likely to apply?

The AASB is proposing a two-phased approach to the removal of the 'reporting entity concept' from Australian Accounting Standards.

Phase 1 (short-term): operate with two conceptual frameworks. This would involve:

- the Revised Conceptual Framework (which removes the current Australian 'reporting entity concept' from Australian Accounting Standards) being applied to those entities that have 'public accountability' and other entities voluntarily complying with IFRS, to enable such entities to maintain IFRS compliance.
- the Existing Conceptual Framework being applied to all other entities that are required to prepare financial statements, to enable such entities to continue to prepare special purpose financial statements (where appropriate) in the short term.

The AASB is proposing that this phase take effect by 1 January 2020.

Phase 2 (medium-term): operate with only one conceptual framework. When this phase comes into effect, the Revised Conceptual Framework (which removes the current Australian 'reporting entity concept' from Australian Accounting Standards) will apply to all entities that are required by legislation or otherwise to prepare financial statements in accordance with Australian Accounting Standards.

The AASB has not formally indicated the proposed effective date for phase 2, however, we understand that the AASB expects this phase to take effect within the next 3 to 5 years.

When does the comment period close?

The comment period closes on 9 August 2018 for 'Phase 1 (short-term)' and 9 November 2018 for 'Phase 2 (medium-term)'.

A copy of the Invitation to Comment may be obtained from the **AASB website** (<http://www.aasb.gov.au>).

Contact our experts
