



**Accounting change,
a new era has
arrived**

2017 Financial
Reporting Update



EY

Building a better
working world

Speakers



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Agenda

1. Revenue
2. Financial instruments
3. Leases
4. Related party disclosures
5. Income of Not-for-profit entities

The world we live in

Volatile, uncertain, complex, ambiguous



AASB 15 – Revenue from contracts with customers



AASB 15 – are you prepared?

Effective in 2018 and affects every business



31 December year ends



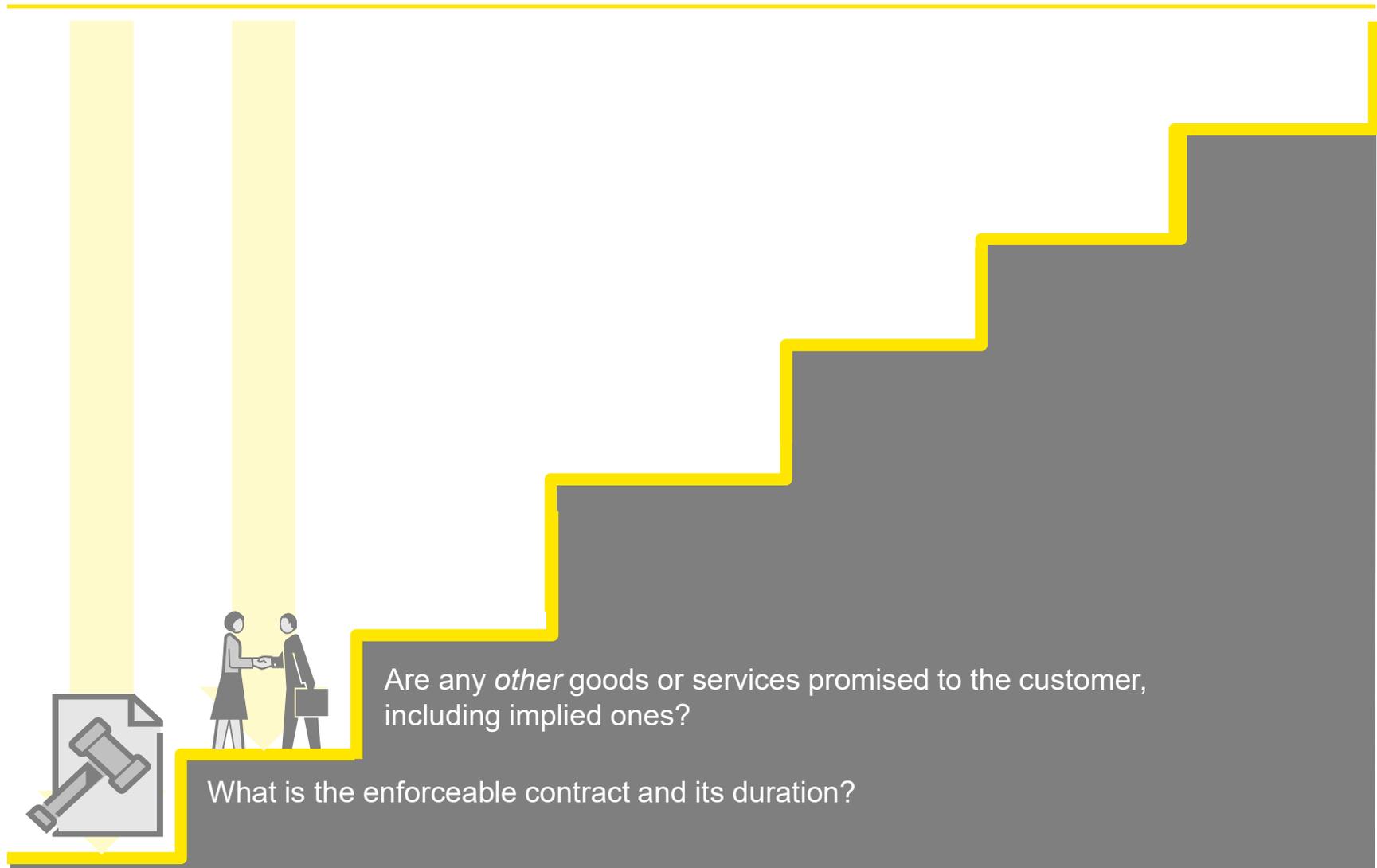
30 June year ends



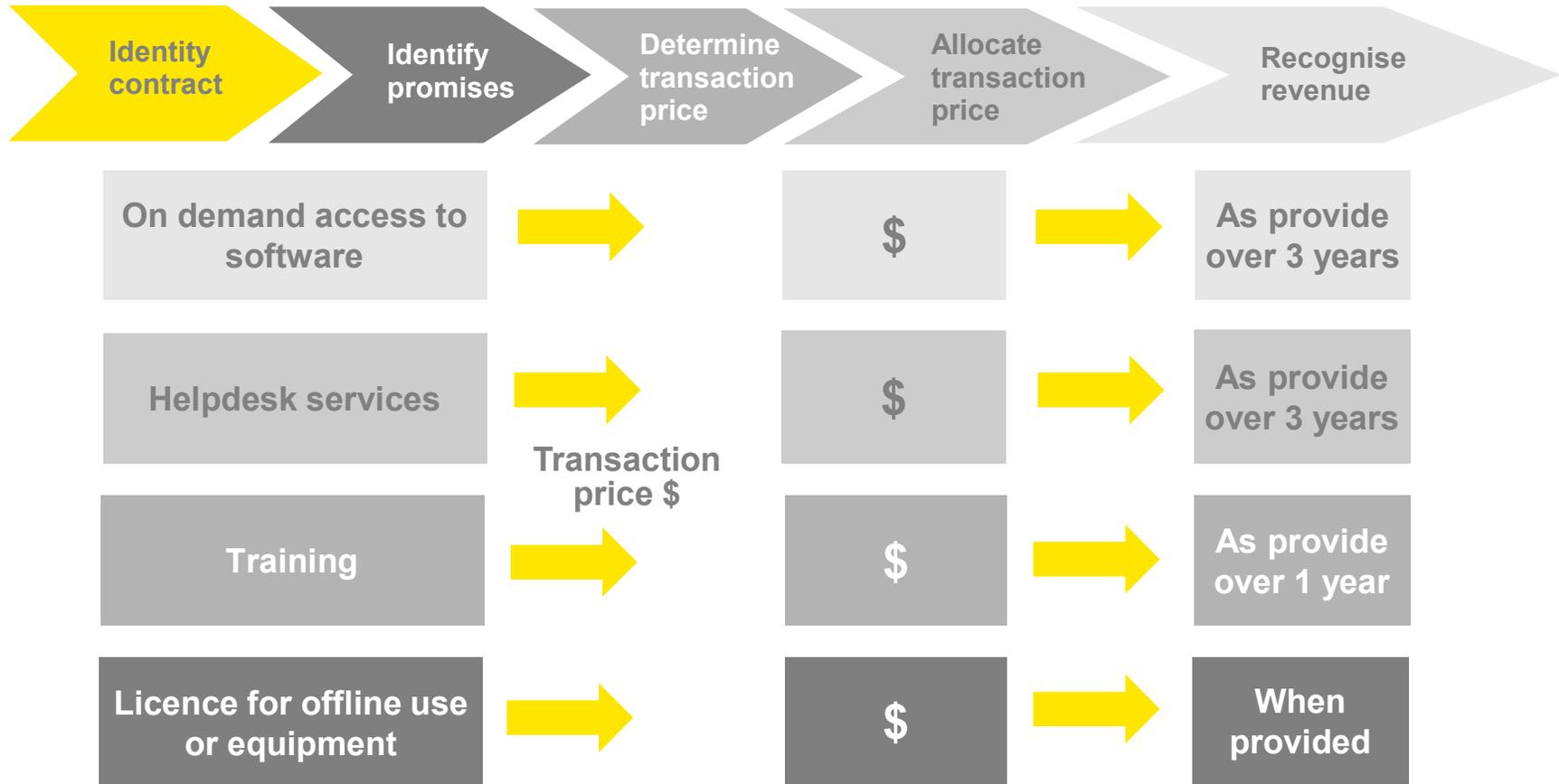
AASB 15 – perception



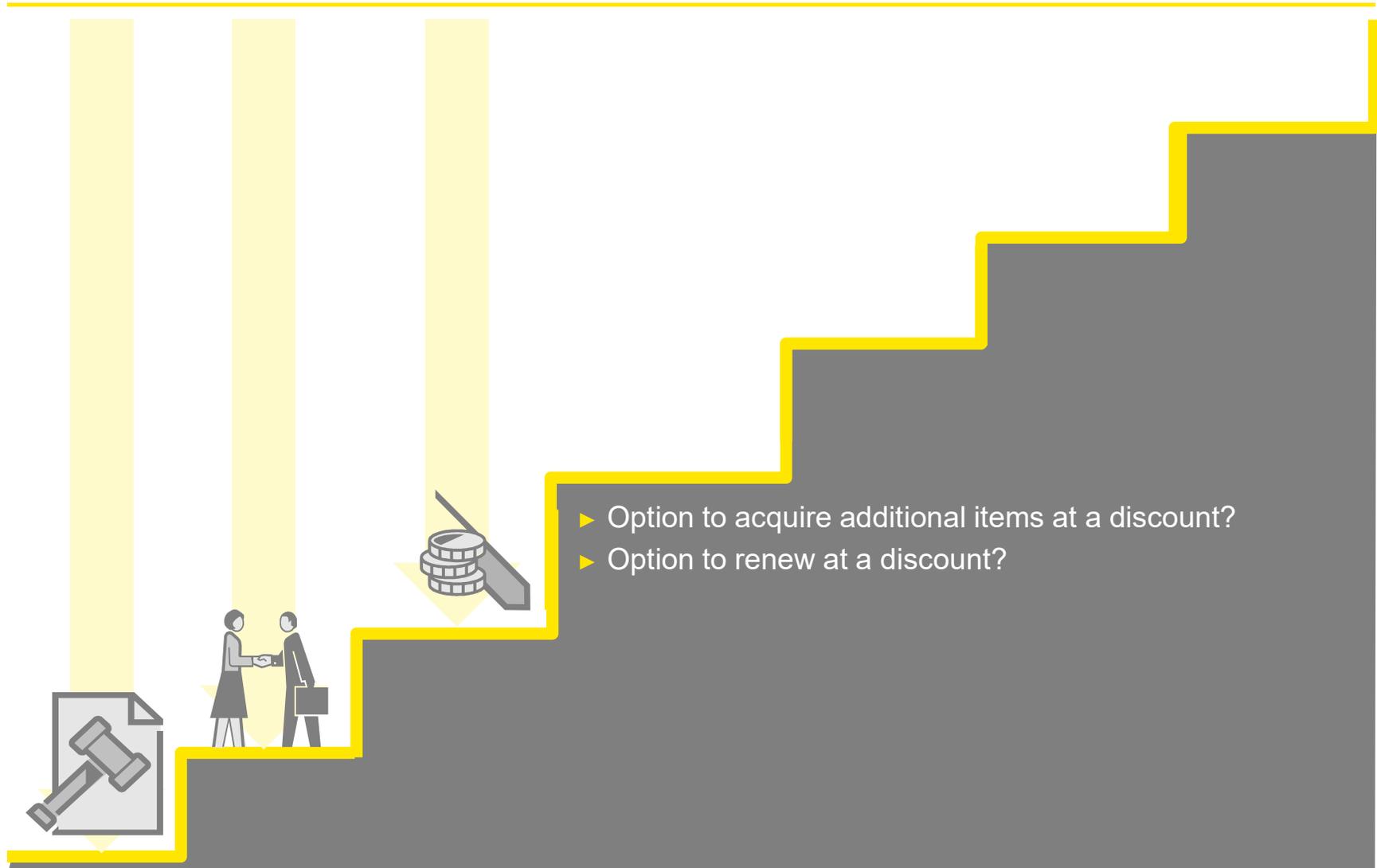
AASB 15 – what should you consider?



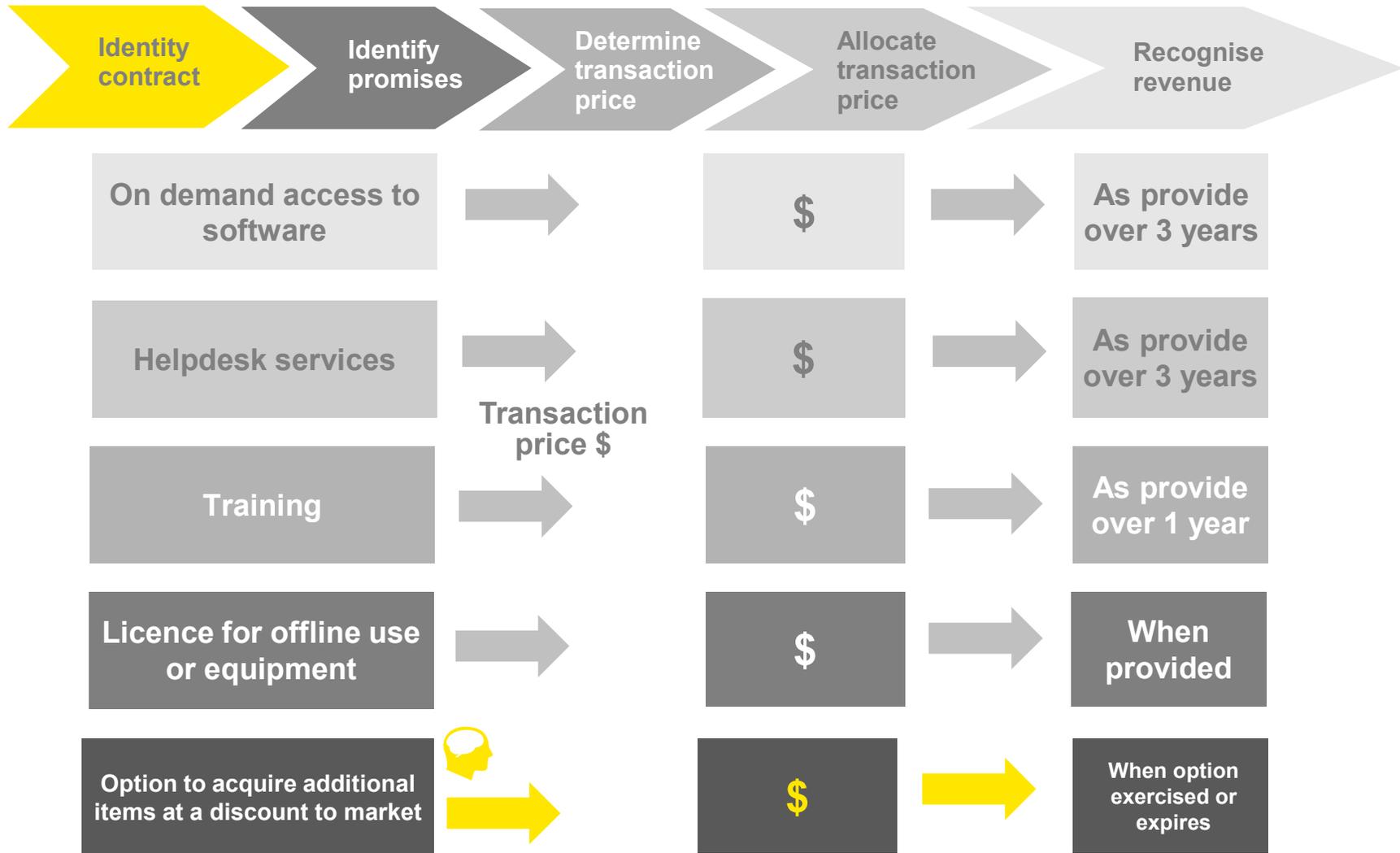
AASB 15 – online access to an accounting software package



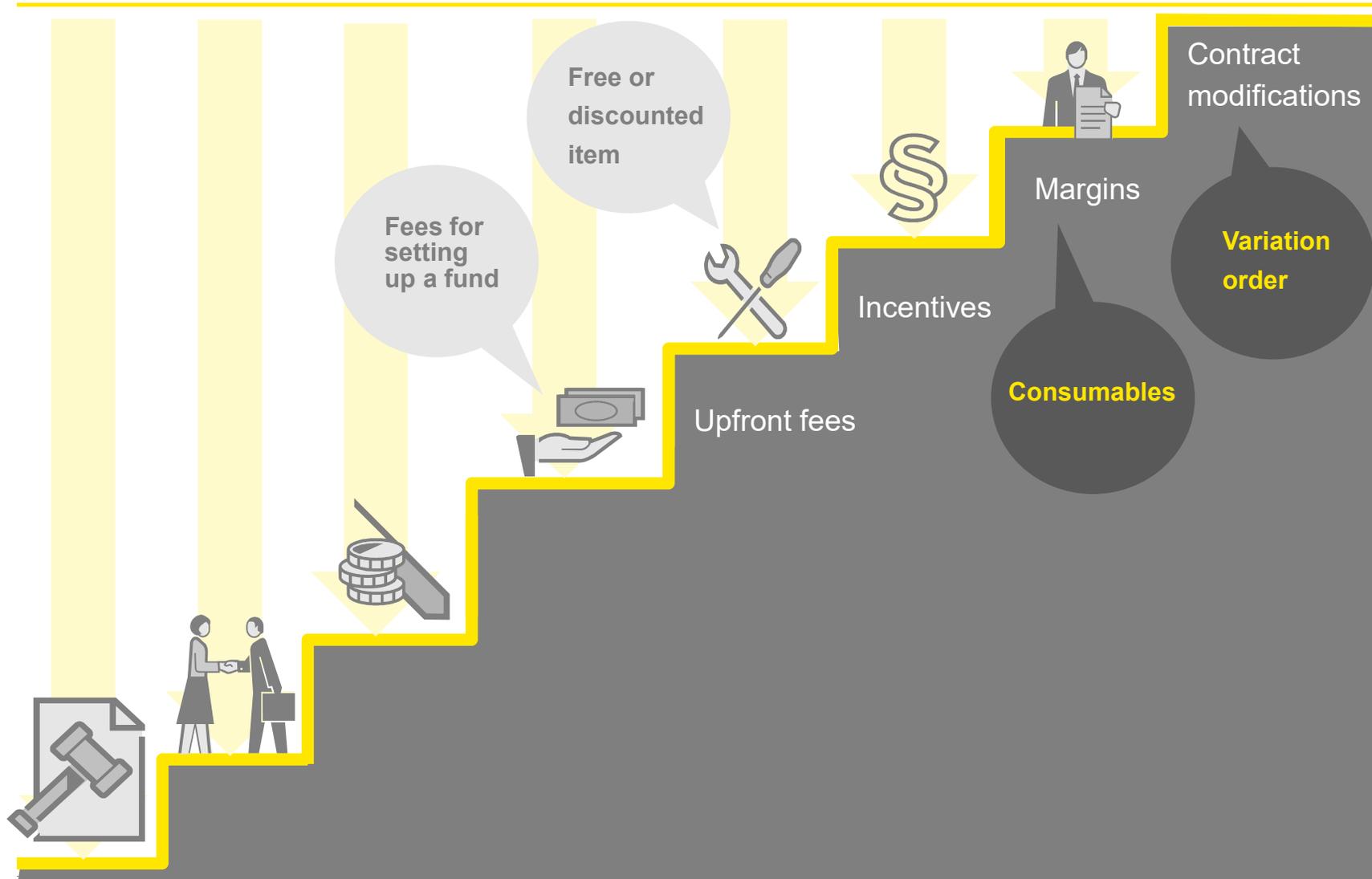
AASB 15 – what should entities consider?



AASB 15 – online access to an accounting software package



AASB 15 – what should entities consider?

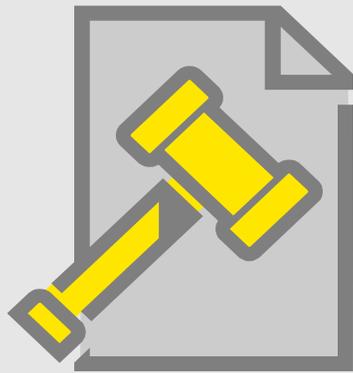


AASB 9 – Financial instruments



AASB 9 – not just for banks

Deals with AASB 139's perceived shortcomings



Classification and measurement – e.g. available for sale equities asymmetry



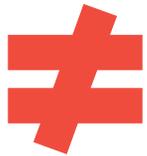
Too little too late incurred loss model



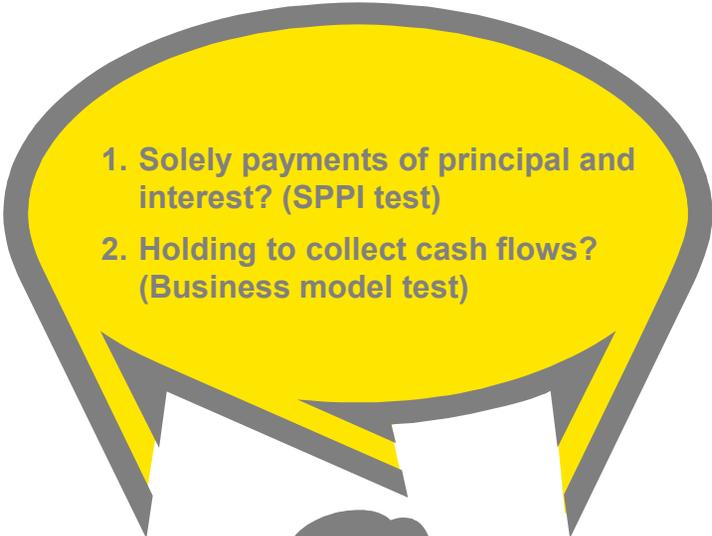
Restrictions on hedge accounting

AASB 9 – measurement

AASB 139
Amortised cost



AASB 9
Amortised cost

- 
1. Solely payments of principal and interest? (SPPI test)
 2. Holding to collect cash flows? (Business model test)



AASB 9 – solely payments of principal and interest?

Loss absorption features



Exclusivity rebates
on loans



Product upgrade
or return options



Share in profits



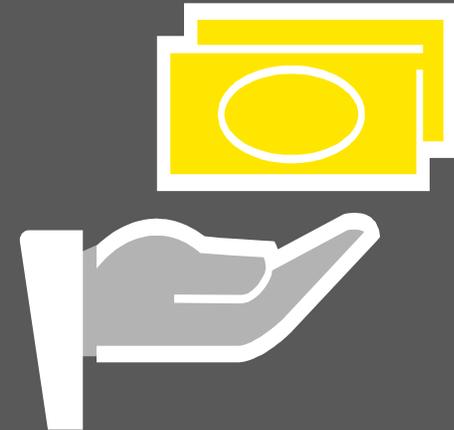
AASB 9 – business model test



Holding to collect cash flows

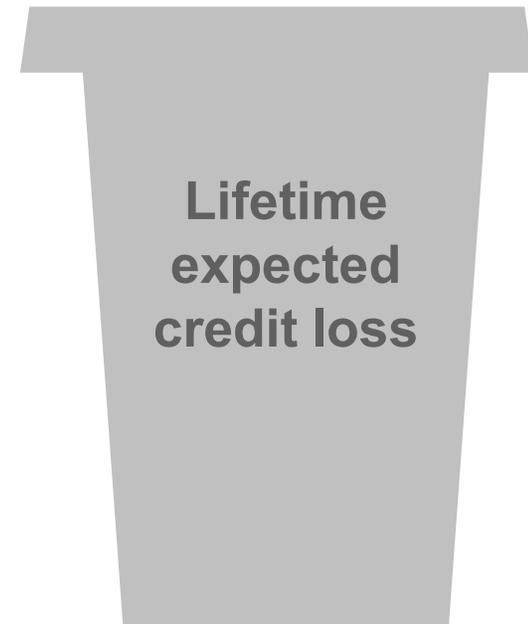
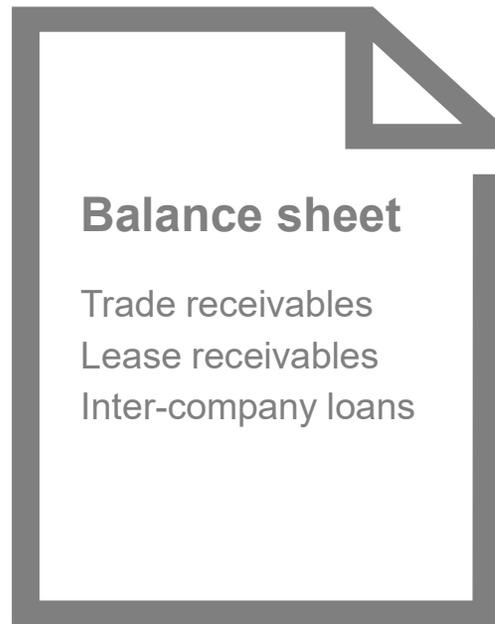


Holding to collect cash flows or sell



Sell receivables

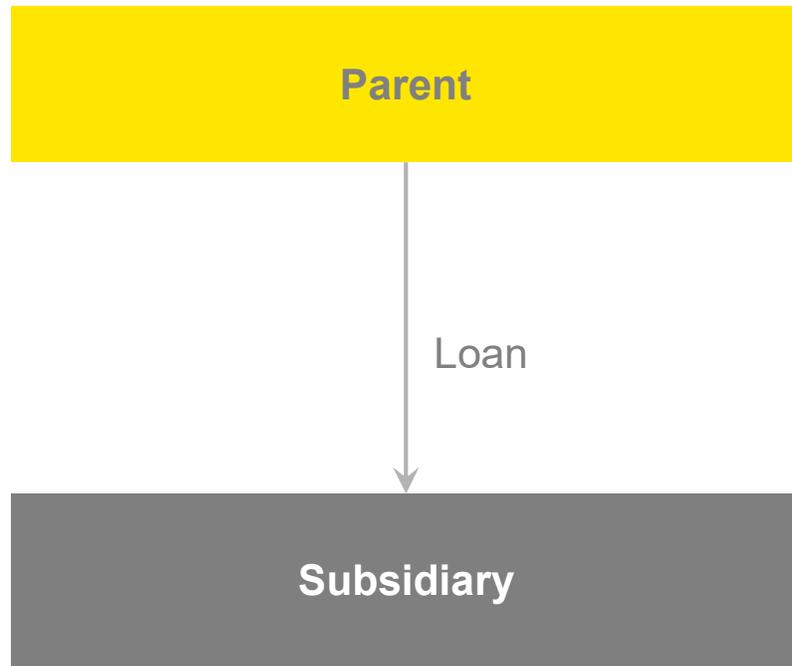
AASB 9 – impairment



AASB 9 – impairment of trade receivables

	Days past due	Current	1-30	31-60	61-90	> 90
	Gross carrying amount	\$15m	\$7.5m	\$4m	\$2.5m	\$1m
1	Historical default rate % 	0.27%	1.5%	3.4%	6.4%	10.1%
2	Forward-looking estimate	0.03%	0.1%	0.2%	0.2%	0.5%
	Expected loss %	0.3%	1.6%	3.6%	6.6%	10.6%
	Impairment provision	\$45k	\$120k	\$144k	\$165k	\$106k

AASB 9 – inter-company loans

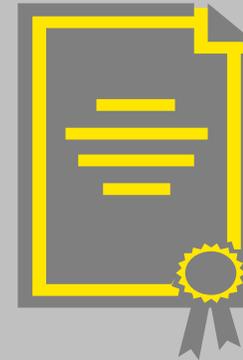


AASB 9 – hedge accounting

Better alignment with internal risk management



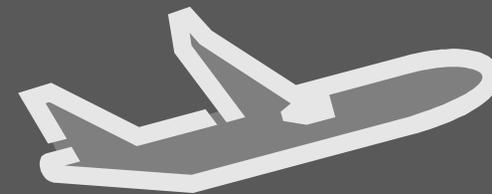
Rules simplified



Bright line tests removed



More risk positions may be hedged



AASB 16 – Leases



AASB 16 – effective 1 January 2019



Low value assets



Lease term of ≤ 12 months



AASB 16 – application of lease grandfathering

Assuming lease vs service assessment correct now!

		Today	
Is it a lease?		Yes	No
AASB 16	Yes	Apply new standard	Can continue as services contract [Grandfather]* or move to AASB 16
	No	Can apply AASB 16 [Grandfather]* or move to service accounting	No change

* Accounting policy choice for *all* existing contracts; not lease-by-lease

AASB 16 – potential issues



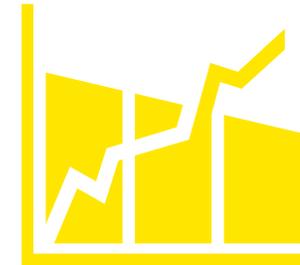
AASB 16 – retrospective application choices

	1 July 2018	Year ending 30 June 2019	Year ending 30 June 2020
Option 1	Cumulative catch-up	Contracts under new standard ← Restate →	
Option 2	Modified retrospective Liability = PV future payments <u>and</u> (a) or (b)	No restatement	Cumulative catch-up
	(a) ROU asset 'as if' AASB 16 always applied		Contracts under new standard
	(b) ROU asset = lease liability		

Note: Choice of Option 1 or 2 for entire **portfolio**. If option 2, then asset is a lease-by-lease choice

AASB 16 – choices compared

- ▶ 8 year lease from 1 July 2015
- ▶ \$100,000 per annum payable in arrears
- ▶ 5% discount rate at lease inception
- ▶ 10% incremental borrowing rate at transition date



Transition choices	ROU asset @ 1 July 2019	Liability @ 1 July 2019	Expenses post 1 July 2019
Option 1 – full retrospective	\$323,161	\$354,595	\$368,566
Option 2a – modified retrospective (ROU asset as if AASB 16 applied)	\$266,746	\$316,987	\$349,760
Option 2b – modified retrospective (ROU asset = lease liability)	\$316,987	\$316,987	\$400,000

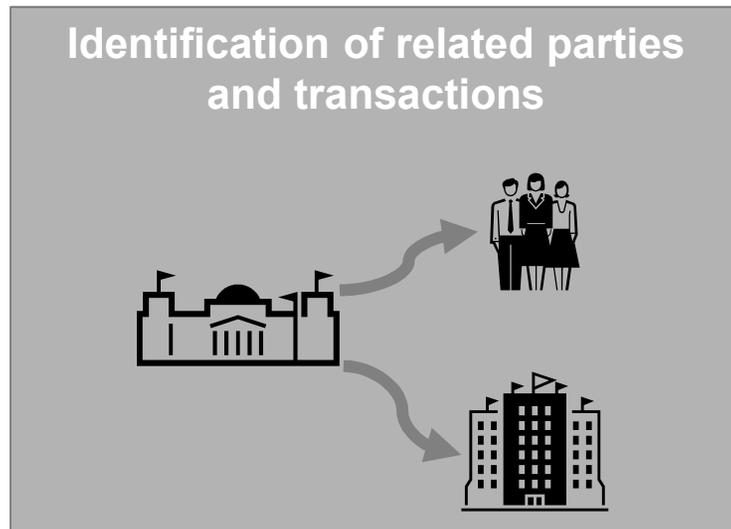
- ▶ Drivers;
 - ▶ Discount rates at lease inception and transition date
 - ▶ Impact on net assets and future expenses
 - ▶ Maturity of leases at transition date

Related party disclosures



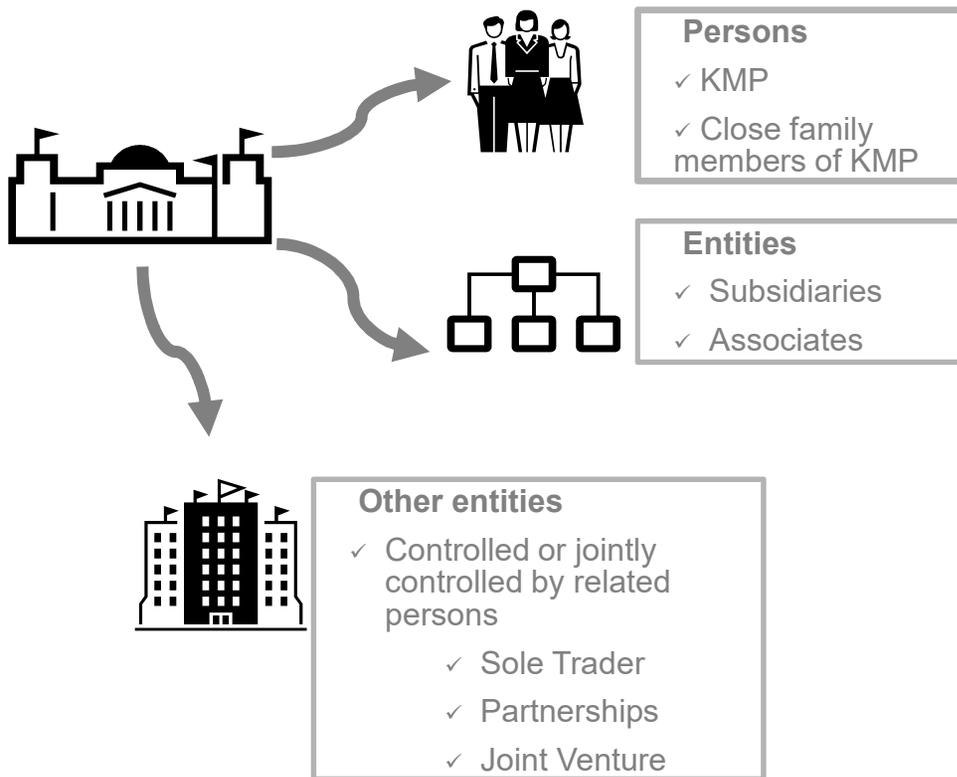
AASB 124 - what has changed?

- ▶ AASB 2015-6 extended related party disclosures to not-for-profit for public sector entities
- ▶ Implementation date: beginning on or after 1 July 2016
- ▶ No comparatives required in first year of adoption



AASB 124 - key definitions

Related party definition includes:



Key Management Personnel (KMP) 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity'

Exemption:

Government related entity exemption

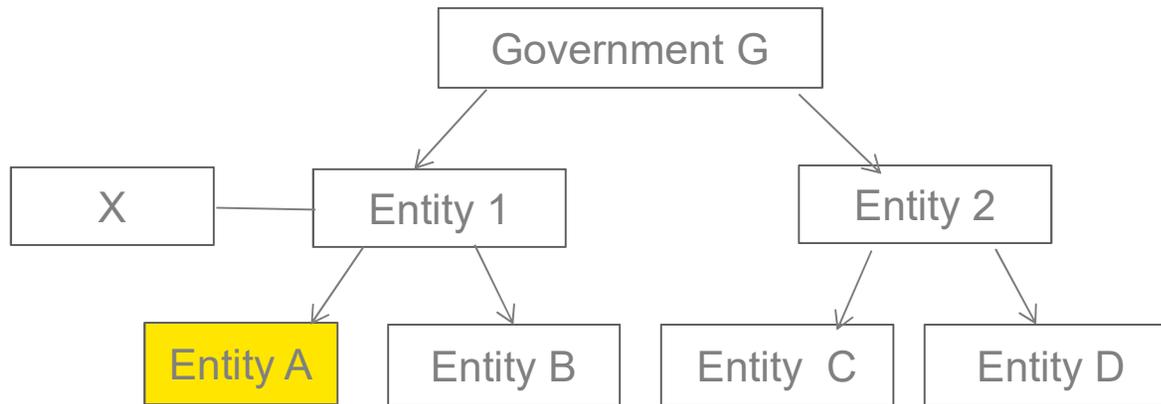
AASB 124 - who are key management personnel (KMP)?

- ▶ Could include: Members of Parliament, Ministers, Cabinet, senior executives
- ▶ Assess on an entity by entity basis
- ▶ KMP of government not necessarily KMP of each controlled entity
- ▶ Even if 'management entity' exemption applies to a minister who is KMP of an entity they are still a related party of the entity → other related party disclosures may apply

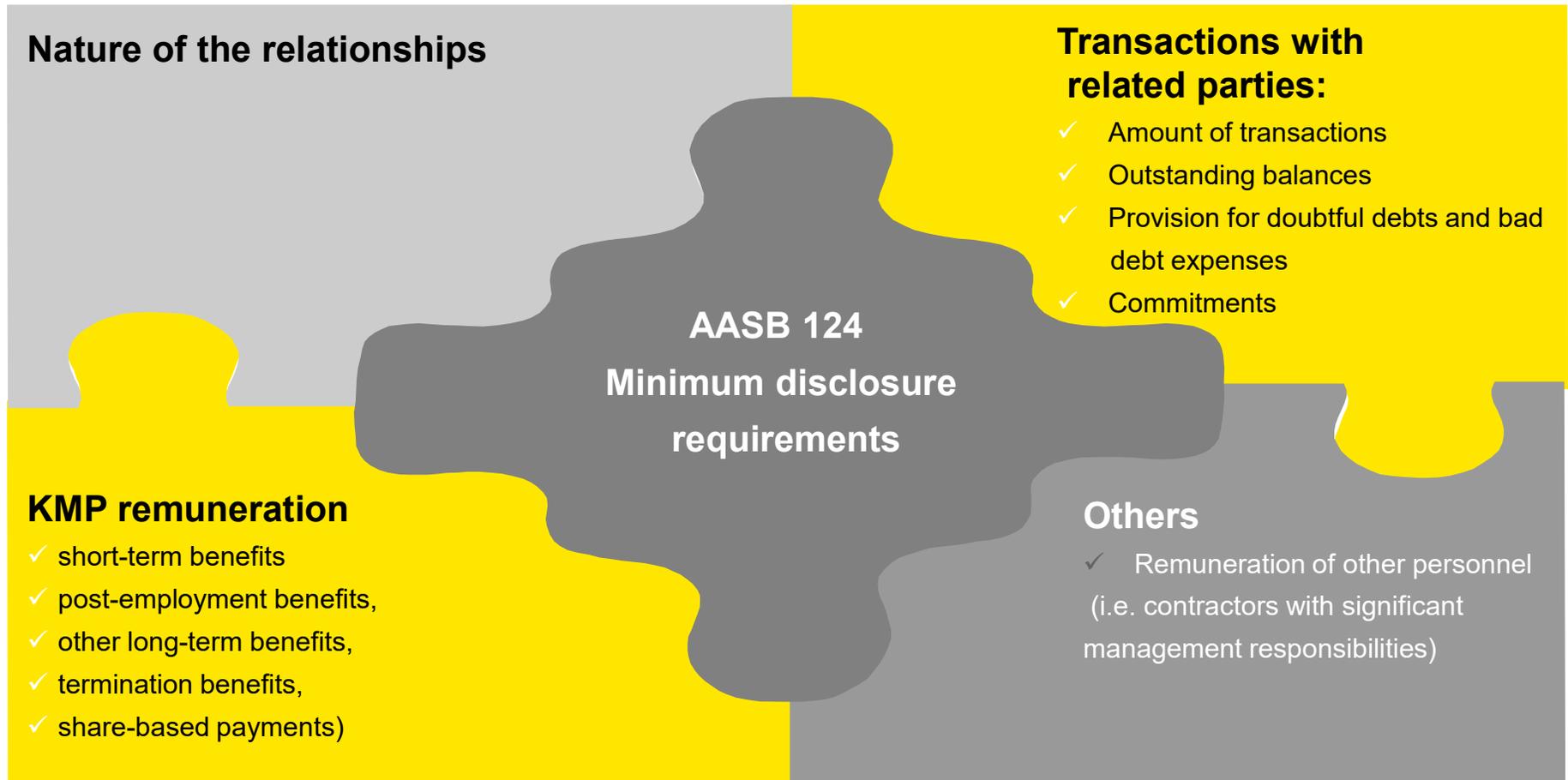
Government-related entity exemption

AASB 124, illustrative example 1

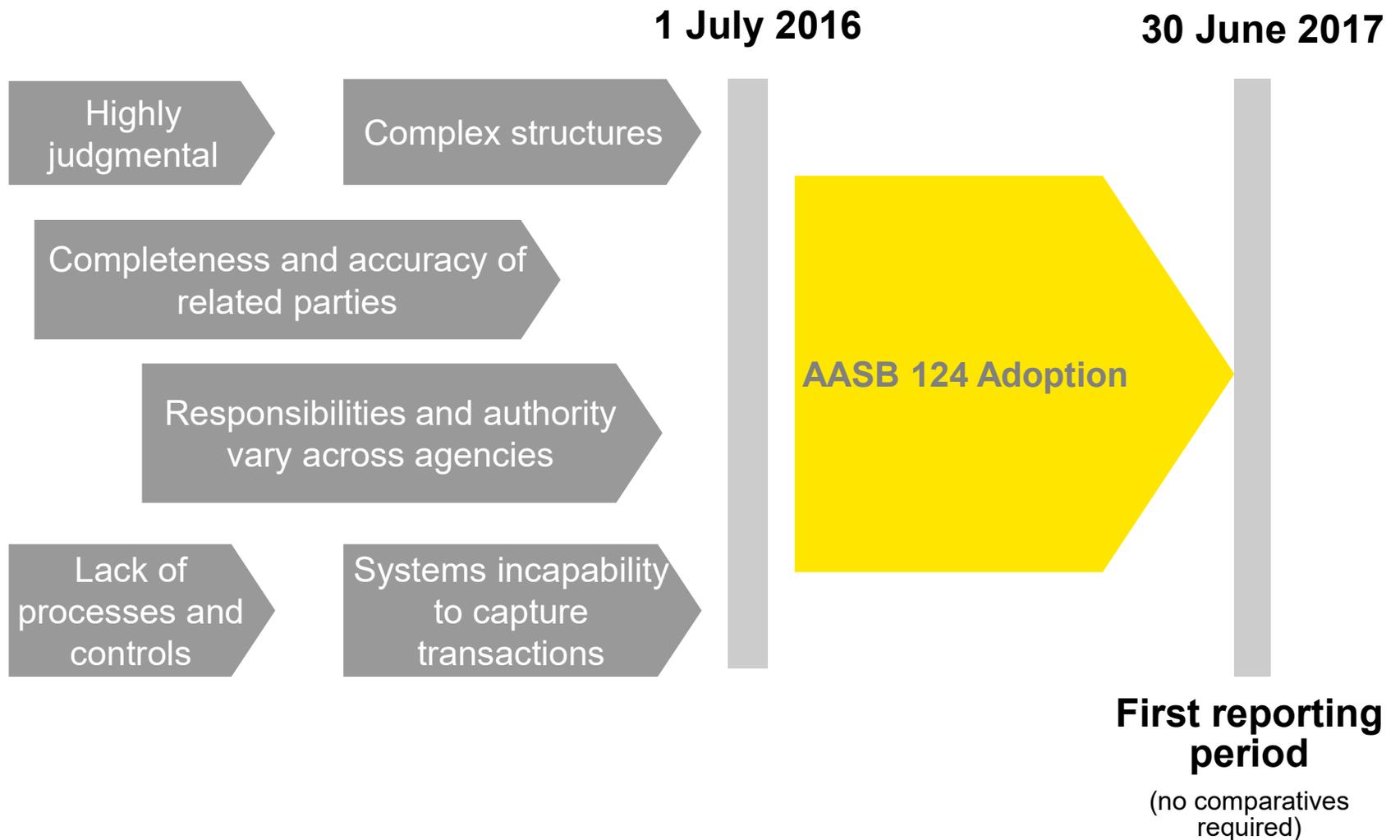
In Entity A's financial statements, for transactions with which parties will the exemption apply?



AASB 124 – disclosure requirements



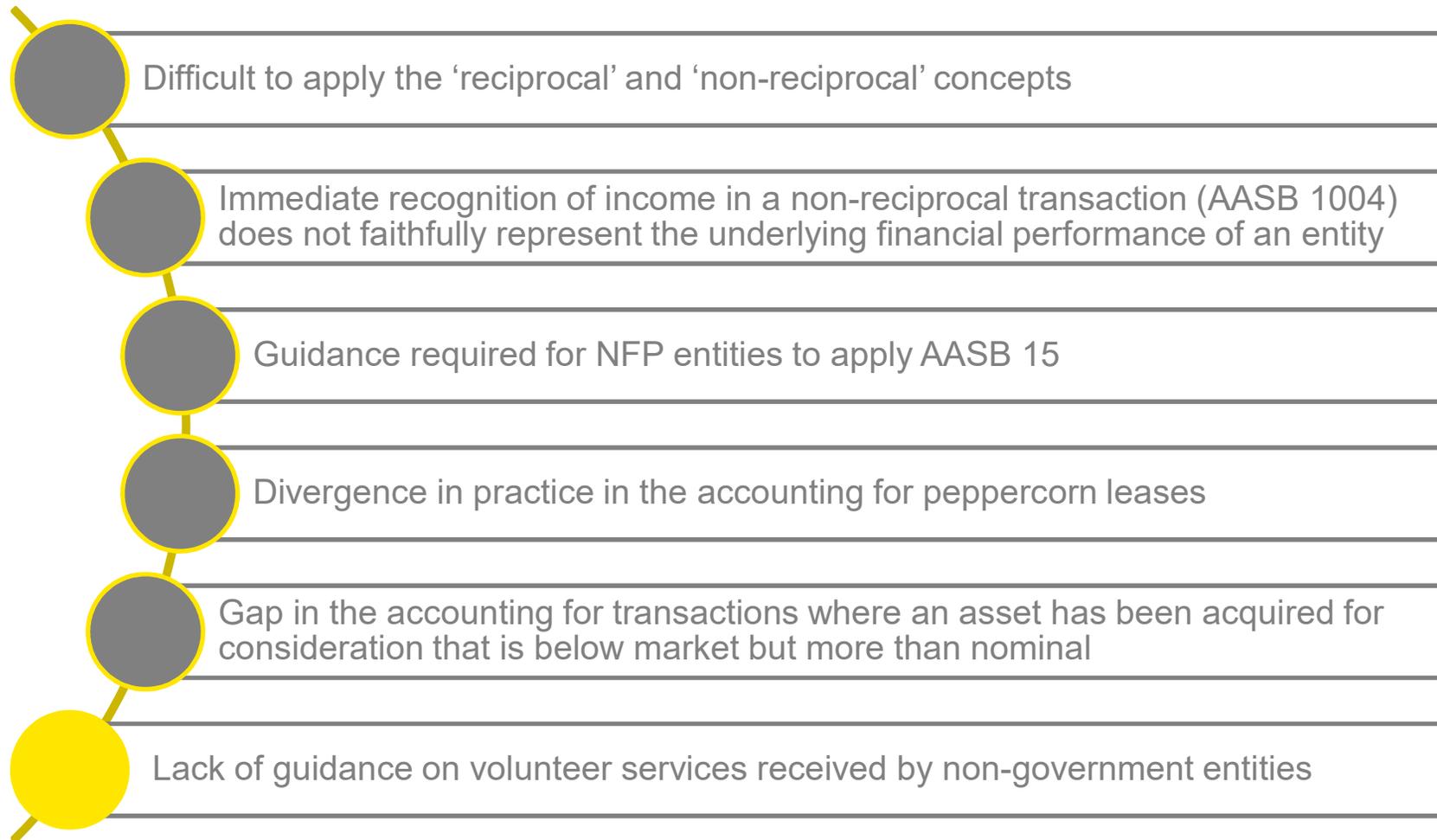
AASB 124 – implementation challenges



AASB 1058 – Income of Not-for-profit Entities



AASB 1058 - background and the need for change



AASB 1058 - new income recognition requirements

Income of Not-for-Profit (NFP) Entities Project

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

2016-7 *Deferral of AASB 15 for NFP Entities*

2016-8 NFP implementation guidance for AASB 9 *Financial Instruments* & AASB 15 *Revenue from Contracts with Customers*

AASB 1004 *Contributions*

Applies to:

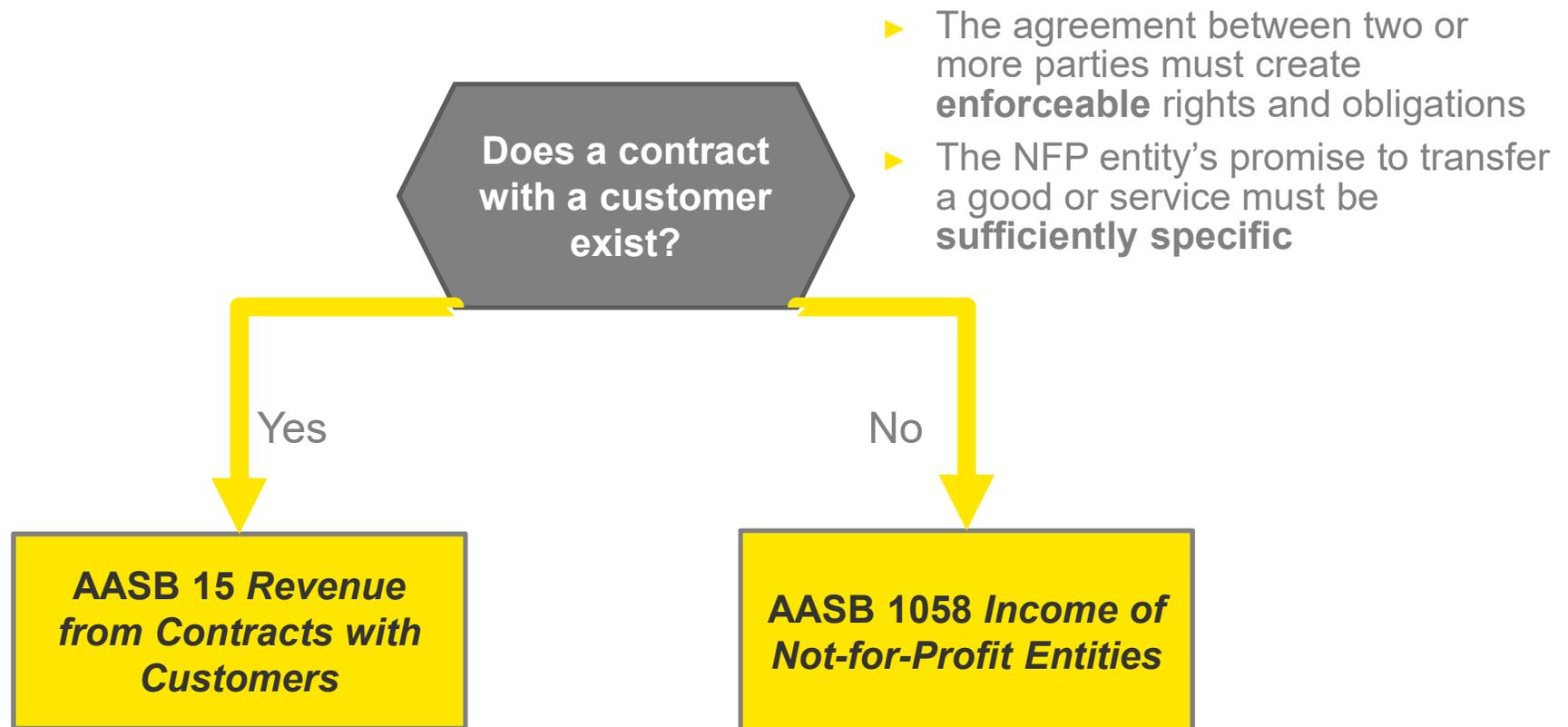
- ▶ Government departments
- ▶ Other Government controlled NFP
- ▶ Local Government and Whole of Government

Guidance on:

- ▶ Parliamentary appropriations
- ▶ Restructure of administrative arrangements
- ▶ Liabilities of government department assumed by others
- ▶ Contributions by owners

AASB 1058 vs AASB 15

Does contract fall under AASB 15 or AASB 1058?



AASB 1058 vs AASB 15

Example

- ▶ NFP receives a government grant, that must be spent within the period 1 Jan 2018 – 31 Dec 2018
- ▶ Government can require refund if NFP breaches any conditions of the contract

Grant specifies the funds must be expended on crisis counselling services to be provided for a specified number of hours per week for the period	Grant specifies that it must be used in accordance with the NFP's overall objective & that it is expended in the period
Transaction occurs in a contract – an agreement with another party that creates enforceable rights/obligations	
Promise is sufficiently specific	No performance obligation
Accounted for using the five step model in AASB 15	Accounted for within AASB 1058

AASB 1058 - recognition of assets

- ▶ Current requirement under AASB 1004 *Contributions*
 - ▶ Only assets acquired for nil or nominal consideration are required to be fair valued
- ▶ New requirement under AASB 1058
 - ▶ Extends fair value measurement to assets with consideration that is significantly below fair value and where the acquired asset is principally to enable the NFP entity to further its objectives
 - ▶ Amends other accounting standards to measure assets at fair value
 - ▶ Excludes asset acquisition at distress sales or sales with bulk discounts

AASB 1058 – recognition of assets significantly below market (peppercorn) leases

- ▶ Charity A (lessee) enters a 30 year lease with a lessor for the use of a facility, with lease payments of \$100 per annum
- ▶ Fair value of the right to use the facility for 30 years: \$360,000
- ▶ Present value of future lease payments: \$1,537
- ▶ The leased premises must be used to provide services to the homeless, or else Charity A will no longer be able to use the facility

Journal entry:

	Dr	Cr
Right-of-use asset	360,000	
Lease liability		1,537
Income		358,463

Thank you



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