The Looking Glass

The Treasury

Insights into reporting developments

Welcome

Welcome to the first edition of The Looking Glass, Treasury's Accounting Update. This is a new initiative from Treasury's Accounting Policy Team, which provides high level insights into recent accounting and financial reporting developments, as well as related activities at Treasury.

Our aim is to provide a brief update rather than a comprehensive technical paper. Each edition of The Looking Glass will include a quick reference to current developments, as well as a closer look at selected topics that are relevant to the public sector. While the responsibility for the financial report lies with each agency, we hope this publication will assist finance teams and their advisers to identify relevant changes and plan their financial reporting activities. We hope you enjoy this publication and welcome your feedback.

Sean Osborn

Director, Financial Management & Accounting Policy Branch

Consolidation, Joint Arrangements and related disclosures

A series of new and revised standards relating to consolidations, joint arrangements and associates will apply to NSW not-for-profit public sector financial statements for the first time in 2014-2015.

AASB 10 *Consolidated Financial Statements* introduces a revised definition of control and supersedes the requirements for consolidated financial statements contained in AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purpose Entities*. AASB 10 introduces several new principles in assessing whether control exists, that require significantly more judgment by management. The new standard also contains a range of comprehensive examples to illustrate the principles, as well as implementation guidance for not-for-profit entities.

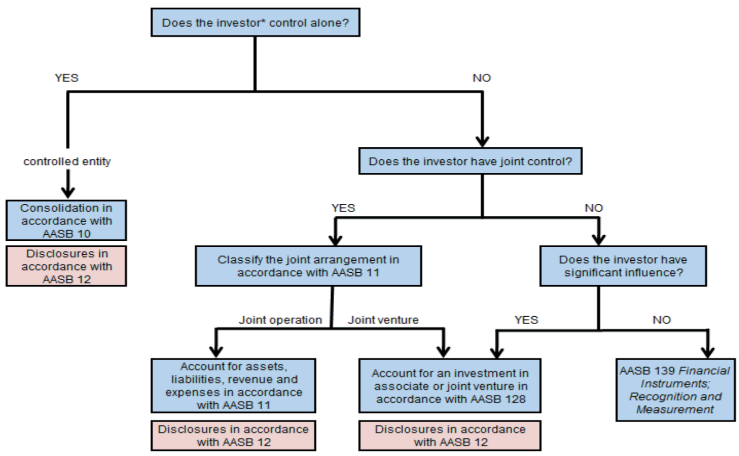
The same package of changes includes amendments to AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures*, as well as issuing two new standards: AASB 11 *Joint Arrangements* and AASB 12 *Disclosure of Interests in Other Entities*. AASB 11 requires joint arrangements to be accounted for based on their contractual arrangements, and distinguishes between joint operations and joint ventures. AASB 12 contains all the disclosure requirements associated with "other entities" (i.e. subsidiaries, associates and joint ventures) that were previously located in AASB 127, 128 and 131 and Interpretation 112 and 113.

A brief assessment of the larger not-for-profit entities in the NSW public sector has not identified any significant changes. However, agencies are strongly encouraged to reassess and document the nature of their relationships with other entities, including entities that are not currently consolidated, to ensure compliance with the new standards.

Key considerations for Agencies

- Review existing control relationships in accordance with AASB 10 and reassess any borderline entities that are currently considered as not controlled, including associates and joint ventures
- Consider legislative arrangements when assessing control e.g. does the Secretary of the principal Department or the Minister control the entity?
- Review relationships with any trust fund entities and NGOs currently not recognised on the primary financial statements
- Review accounting treatment for joint ventures and associ ates in accordance with AASB 11 and the revised AASB 128
- Prepare additional disclosures in accordance with AASB 12

The decision tree below provides guidance in determining the appropriate standard to apply to your situation.



Adapted from: IFRS Foundation (2011)
**investor can be regarded as any agency, entity or structure that has involvement with another entity i.e. an entity that potentially controls another entity*

New Revenue Standard

In May 2014 the International Accounting Standards Board (IASB) issued IFRS 15 *Revenue from Contracts with Customers*. The AASB expects to issue an equivalent standard, AASB 15, in Q4 2014.

AASB 15 will replace AASB 111 *Construction Contracts* and AASB 118 *Revenue* and will be applicable to financial years beginning on or after 1 January 2017. It aims to achieve greater consistency in accounting for revenue from contracts.

The new standard will change the current 'risks and rewards' approach in determining *when* to recognise revenue and *how much* revenue to recognise, to a single recognition model based on the transfer of goods and services and the consideration expected to be received in return for that transfer. The model will follow a 5 step approach as outlined below.

Proposed 5 step revenue recognition model

Step 1	Step 2	Step 3	Step 4	Step 5
Identify the contract with the customer.	Identify the performance obligations in the contract.	Determine the transaction price.	Allocate the transaction price to each performance obligation.	Recognise revenue when (or as) performance obligations are satisfied.

AASB 15 will not apply to non-contractual income such as taxes, grants appropriations and other contributions presently within the scope of AASB 1004 *Contributions*, and service concession arrangements. The AASB currently has a project considering the treatment of income from transactions of not-for-profit entities.

Key considerations for Agencies

- Familiarise yourself with the proposed changes and revenue recognition model
- Evaluate existing revenue contracts with customers and determine whether transaction(s) or event(s) give rise to a contract that is within the scope of the proposed AASB 15
- Consider practicalities of the proposed changes and how it will impact your agency
- Keep informed of upcoming announcements and release of AASB 15, expected Q4 2014
- Notify the Accounting Policy Team and your Treasury analyst if your agency is likely to be significantly impacted by AASB 15
- AASB 15 may change how your agency accounts for revenue from contracts and increase financial reporting disclosures, therefore preparation and research is important.

Other Developments

The following table outlines the key financial reporting developments that may impact agencies in future periods.

Financial reporting developments	Estimated issue date	Suggested action
AASB 124 *Related Party Disclosures* The AASB intends to extend the scope of AASB 124 to not-for-profit (NFP) public sector entities. The recent 'management entity' amendments in the existing standard, applicable to other entities from 1 July 2014, would be relevant to NFP public sector entities that have Ministers identified as key management personnel (KMP). If an entity obtains KMP services from a 'management entity' (in the case of Ministers - Parliament), it may not be required to disclose the KMP compensation information outlined in AASB 124 paragraph 17.	The standard is expected to be issued in late 2014 and will be applicable for reporting periods beginning on or after 1 July 2016.	Consider how the amendments may impact your agency. Consider systems required to capture relevant information including comparative information for the first year of application.
AASB 123 *Borrowing Costs* The AASB decided to retain the option in AASB 123 for NFP public sector entities to expense borrowing costs directly attributable to acquisition, construction or production of an asset.	AASB will issue a Basis for Conclusions explaining the decision.	No action required.
Leases The IASB proposes that entities recognise an asset and a liability for leases with a maximum possible term of more than 12 months.	The IASB expects to issue a new Leases standard in 2015.	Be familiar with the proposed accounting for leases and monitor the progress of this project.

Questions?

Please contact Kaveh Daemi if you would like to discuss any of these Standards.
Please email us if you have any feedback or would like to subscribe to The Looking Glass.