

The Looking Glass

Welcome

In this edition of *The Looking Glass* we take a high level view of AASB 124 *Related Party Disclosures* and some key considerations for not-for-profit (NFP) public sector entities in complying with the standard. We also briefly outline the proposed amendments to the new revenue Standard, AASB 15 *Revenue from Contracts with Customers*. Finally, we continue our summaries of the latest financial reporting developments relevant to the public sector.

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AASB 124 related party disclosures for NFP public sector entities

The scope of AASB 124 has been extended to include NFP public sector entities. These entities will be required to apply AASB 124 prospectively from 1 July 2016. The requirements include financial statement disclosures of material transactions and outstanding balances between a reporting entity and its related parties. These transactions can be a transfer of resources, services or obligations between an entity and its related party, regardless of whether a price is charged.

The definition of a 'related party' in AASB 124 is extensive and needs to be considered carefully. Importantly the definition also includes close family members of individuals in related party relationships. Key management personnel (KMP) are related parties with separate disclosure requirements. KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (executive or otherwise).

Agencies will need to identify those individuals and entities that are related parties and should refer to Australian implementation guidance for NFP public sector entities in AASB 124, which includes practical examples. Treasury has summarised the key principles in the following diagrams.

Diagram 1: Applying AASB 124 in 4 steps

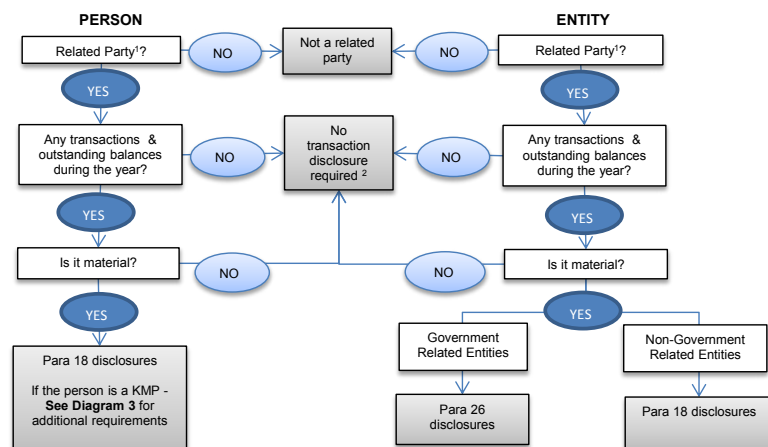


Notes:

*Outstanding balances are not required if an entity and its related parties are 'government-related entities'

**KMP compensation is not required if KMP services are provided by a 'management entity'

Diagram 2: Decision Tree applying steps 1 to 4

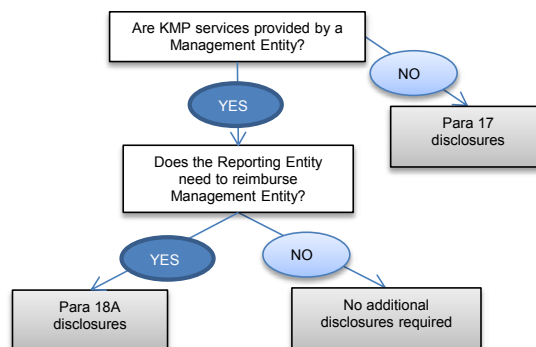


Notes:

¹See AASB 124 para. 9 for related party definition

²An entity must disclose its relationship with its parent and/or controlled entity regardless whether there have been any transactions during the year.

Diagram 3: Additional KMP disclosure requirements



Proposed amendments to AASB 15 Revenue from Contracts with Customers

The first edition of *The Looking Glass* (published in November 2014) provided an overview of the new revenue standard. Since then, the AASB has issued Exposure Draft (ED) 263 *Effective Date of AASB 15 Revenue from Contracts with Customers* and ED 267 *Clarifications to AASB 15* with proposed amendments to the new Standard.

ED 263 Effective Date of AASB 15 Revenue from Contracts with Customers

ED 263 proposes to defer the application date of AASB 15 from annual reporting periods beginning on or after 1 January 2017 to annual reporting periods beginning on or after 1 January 2018. This will provide additional time to plan, develop and implement systems and process changes in order to comply with the new Standard. The AASB acknowledges that implementing the new Standard may require a significant exercise from some entities and the deferral of the effective date by one year should provide sufficient time to satisfy compliance. However an early assessment of the AASB 15 requirements is the key to successful implementation.

ED 267 Clarifications to AASB 15

The following table summarises some of the key proposed amendments in ED 267.

Topics	AASB 15	Proposed amendments in ED 267
Identifying performance obligations	Entities should identify performance obligations on the basis of promised goods or services that are 'distinct'.	Clarification of the application of the concept of 'distinct' by amending illustrative examples in AASB 15.
Principal vs. Agent	Entities are required to determine whether they are the principal or agent in a transaction when there is another party involved in providing goods or services to a customer. Does the entity 'control' the promised goods or services before they are transferred to the customer?	Clarification of the application of the 'control' principle, when assessing whether an entity is a principal or an agent in a transaction.
Licensing	The timing of revenue recognition depends on whether a right to use or a right to access a licence is provided. This depends largely on whether the contract requires, or the customer reasonably expects the entity to undertake activities that significantly affect the intellectual property (IP).	Clarification of: <ul style="list-style-type: none"> When an entity's activities will significantly affect the IP to which the customer has rights. The treatment of sales or usage-based royalties promised in exchange for a licence
Further transitional reliefs	Entities are required to apply AASB 15 retrospectively, using either a full or modified retrospective method. The standard provides some practical expedients in applying the full retrospective method.	Proposed additional practical expedients on transition: <ul style="list-style-type: none"> Where the full retrospective method is used, allow not to apply AASB 15 retrospectively to completed contracts Allow hindsight when identifying satisfied and unsatisfied performance obligations in a modified contract, before the start of the earliest period and in determining the transaction price.

Key considerations for agencies

- Familiarise yourself with AASB 15 & 124
- Develop a plan to analyse how AASB 15 & 124 will affect your agency
- Determine whether current systems, processes and controls are appropriate to account for revenue under AASB 15
- Stay informed of upcoming amendments
- Involve the external auditors early
- Notify the Accounting Policy Team and your dedicated Treasury Analyst if your agency will be significantly impacted by either Standard

Other reporting developments

Key financial reporting developments that may impact agencies in future periods are outlined below.

Financial reporting developments	Estimated issue date	Suggested action
ED 270 Reporting Service Performance Information ED 270 proposes mandatory requirements for NFP entities to report service performance information at least annually. Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) will prepare a submission to the AASB commenting on the proposals in ED 270. Please contact the Accounting Policy Team if you have any concerns or comments on the proposals. NSW Treasury would value your input to the AASB submission.	ED 270 is open for comments until 12 February 2016.	Consider how the proposed reporting requirements may impact your agency.
Conceptual Framework for Financial Reporting The IASB is undertaking a project to update the existing <i>Conceptual Framework</i> . The aim of this project is to improve financial reporting by including a more complete and clear set of concepts for entities.	ED 264 & 265 are closed for comments. The IASB aims to finalise the revised framework in 2016.	No action at this time.

Questions?

Please contact [Kaveh Daemi](#) if you would like to discuss any of these Standards.
Please email [accpol](#) if you have any feedback or would like to subscribe to *The Looking Glass*.

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