

Accounting Standards Changes

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AGENDA

1. High level overview of the guidance material
2. The Standards:
 - AASB 9 Financial instruments
 - AASB 15 Revenue from contracts with customers
 - AASB 16 Leases
 - AASB 1058 Income of not for profit entities
3. Examples
4. Upcoming Webinars

...a word of thanks...

The accounting standards guidance was made possible as a result of many FinPro members contributing their time to the project.

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- Sharon Cole
- John Brockway
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- Olivia Zhou
- Wendy McGorm
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1. The Guidance Material



- Focusses on transition issues
- Provides guidance on options under the standards
- Available now @

<https://www.localgovernment.vic.gov.au/strengthening-councils/sector-guidance-planning-and-reporting>

1. The Guidance Material

Table 1: AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers options or practical expedients available on transition (or ongoing)

Paragraph number	AASB 15 Accounting Option	LGV Position	Rationale	Example/Reference
Transition options				
C3	<p>We note that the same method must be chosen for AASB 15 and AASB 1058.</p> <p>Modified (cumulative catch up) adoption – current year (30 June 2020) prepared under AASB 15 and prior year (30 June 2019) prepared under existing standards. Adjustments on adoption taken to retained earnings at 1 July 2019.</p> <p>Note – under the modified approach, Councils would be required to report numbers under the existing standards for 30 June 2020 by way of a note disclosure to allow comparability under existing standards.</p> <p>Full retrospective adoption – both current year (30 June 2020) and comparative year (30 June 2019) are prepared under AASB 15. Adjustments on adoption taken to retained earnings at 1 July 2018.</p>	<p>Adopt AASB 15 using the modified (cumulative catch up) approach.</p>	<p>Option allowed in AASB 15 to make transition to the standard easier by adopting modified (cumulative catch up) approach.</p> <p>Additionally, the adopted method will be less costly to implement than full retrospective adoption.</p> <p>Disclosure of impact will be mandated in the 2019-20 Local Government Model Financial Report (LGMFR).</p>	<p>Appendix B – Example 2 Appendix B – Example 3</p>

2. The Standards

- **AASB 9 FINANCIAL INSTRUMENTS**

- Impact for sector is to move from an incurred loss model to an expected loss model for the calculation of provisions for doubtful debts.
- Conceptually brings forward the point at which a doubtful debt provision is recognised to the initial sale, rather than waiting for a credit event.
- Councils need to look at past performance to estimate expected credit loss (ECL) and provide accordingly.
- Guidance *directs councils not to restate comparatives* on transition.




2. The Standards

- ***AASB 15 Revenue from contracts with customers***
 - Only potential change is to the ***timing*** of revenue recognition.
 - Simply stated – recognise revenue when you complete performance obligation under the contract.
 - If performance obligations are not sufficiently specific then default to control.
 - Only likely to impact contracts where the receipt of funds and delivery of performance obligation subject to significant time gaps.
 - ***GUIDNACE MANDATES*** – modified catch up approach

2. The Standards

- ***AASB 15 Revenue from contracts with customers***

- ***CHECKLIST – STEPS TO TAKE:***

- Identify (significant) contracts with customers that are likely to be 'not complete' at 1 July 2019 
- Identify any changes in revenue recognition from the application of AASB 15 (timing). 
- Determine disclosure for pending accounting standards note (if any) 

2. The Standards

- ***AASB 16 Leases***

- All leases will be on balance sheet
- Guidance mandates grandfathering – that is on transition (1 July 2019) Council only need recognise those leases previously identified as operating leases in the balance sheet.
- From 1 July, any contract entered into, varied or renewed, that contains a lease will need to be recognised in the balance sheet.

2. The Standards

- **AASB 16 Leases**

- **CHECKLIST – STEPS TO TAKE NOW:**

- Identify in-scope leases
 - Low value threshold
 - Less than 12 months to run
- Tip – utilise current information of lease commitments
- Create lease register
- Determine opening balances
 - Adopt practical expedient – measure lease asset at NPV of remaining lease payments

- **OTHER CONSIDERATIONS...NOW!**

- How will you handle the mechanics for leases (spreadsheet vs lease software)
- Transition resources/assistance – potential for a reasonable amount of work required between now and 30 June
- How will contracts containing leases be identified by those responsible for financial reporting
- Debt covenant and ratio impacts
- **WARNING – While you don't need to disclose any accounting for leases until 30 June 2020, you do need to account for leases under the new requirements from 1 July 2019.**

2. The Standards

- ***AASB 1058 Income of not for profit entities***
 - Impact is similar to AASB 15 – moves focus from control to performance obligation.
 - Requires consideration of Volunteer Services.
- *Guidance Mandates*
 - Modified catch up approach.
 - Only recognise volunteer services that council would otherwise purchase.

2. The Standards

- ***AASB 1058 Income of not for profit entities***
- ***CHECKLIST – STEPS TO TAKE:***
- Identify (significant) revenue generating contracts/agreements/grants that are likely to be 'not complete' at 1 July 2019.
- Identify any changes in revenue recognition from the application of AASB 1058 (timing).
- Determine disclosure for pending accounting standards note (if any)

Volunteer Services:

- Develop a register of volunteer services that council would otherwise purchase
- Determine a cost base for volunteer services
- Develop a system to capture the hours/services delivered (ready for 1 July)

3. Examples

- The guidance material contains 11 detailed examples covering key aspects of the changed standards.
- Examples are high level and illustrative, they are not designed to cover all possible scenarios.
- It is crucial that all professionals out there, familiarise themselves with the standards.

4. Upcoming Webinars

- This area is complex, and it is anticipated that a number of questions will arise once the guidance material has been considered.
- To address this FinPro and LGV are coordinating three webinars to go into more detail in relation to the practical implementation of the guidance material.
- Dates of Webinars:
 - Friday, 22 March 2019;
 - Friday, 29 March 2019; and
 - Friday, 12 April 2019

