Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M184
Topic:	**Tier 3 – Primary financial Statements**	**Agenda Item:**	7.2
		Date:	26 October 2021
Contact(s):	Maggie Man mman@aasb.gov.au Evelyn Ling eling@aasb.gov.au Fridrich Housa fhousa@aasb.gov.au	**Project Priority:**	High
		Decision-Making:	High
		Project Status:	Initial deliberations

Objective of this paper

1 The objective of this staff paper is for the Board to **decide** its preliminary views on Tier 3 reporting requirements for a not-for-profit (NFP) private sector entity's primary financial statements, for inclusion as part of a discussion paper (DP). Specifically:

(a) the primary financial statements to be presented by Tier 3 entities; and

(b) the presentation approach for the face of those primary financial statements.

Background and reasons for bringing this paper to the Board

2 At its 4 August 2021 meeting, the Board decided to consider at a future meeting the primary financial statements applying under Tier 3 reporting requirements. Addressing primary financial statements as part of a DP recognises that these are a key component of the general purpose financial statements (GPFS). Developing preliminary views in this regard will enable the Board to obtain useful feedback on whether its proposed views should be further developed as part of a future Exposure Draft.

3 The Not-for-Profit Private Sector Financial Reporting Framework Project Summary provides an overview of the Board's tentative decisions to date in respect of the project.

Structure of this paper

4 This paper is structured as follows:

Current accounting requirements and whether there is a reason for the Board to address

(a) summary of staff recommendations (paragraphs 5 – 7);

(b) current requirements under Australian Accounting Standards (paragraphs 8 – 11);

(c) Australian legislative requirements (paragraph 12);

(d) summary of approaches taken by selected other jurisdictions (paragraph 13);

(e) feedback from Australian stakeholders (paragraph 14);

(f) findings from academic research and other literature (paragraph 15);

(g) findings from staff review of a sample of financial statements (paragraphs 16 –19);

Considering options for simplification and staff analysis

(h) options for simplification (paragraph 20):

(i) **Part 1**: relief from presenting certain primary financial statements (paragraphs 21 – 25);

  (i) whether the presentation of other comprehensive income is an integral part of a primary financial statement (Table 1);

  (ii) whether a statement of changes in equity is a necessary component of Tier 3 general purpose financial statements (Table 2);

  (iii) whether a statement of cash flows is a necessary component of Tier 3 general purpose financial statements (Table 3);

  (iv) evaluation of options against Tier 3 principles (paragraph 22);

  (v) staff recommendations (paragraphs 23 – 25);

(j) **Part 2**: the presentation approach for the face of the specified primary financial statements (paragraph 26);

  (i) staff analysis and recommendations – whether presentation requirements for statement of cash flows should be simplified (paragraphs 27 – 32);

  (ii) staff analysis and recommendations – whether presentation requirements for the statement of profit or loss and other comprehensive income (or profit or loss) and statement of financial position should be simplified (paragraphs 33 – 38);

Appendices

(k) Appendix A: Australian legislative requirements;

(l) Appendix B: Summary of approaches taken by selected other jurisdictions;

(m) Appendix C: Feedback from Australian stakeholders; and

(n) Appendix D: Findings from academic research and other literature.

Summary of staff recommendations

5 Staff recommend that an entity complying with Tier 3 reporting requirements should continue to be required to present:

(a) a statement of profit or loss and other comprehensive income. A statement of income and retained earnings may be presented instead if specified conditions are met;

(b) a statement of changes in equity. This statement is not required where the entity presents a statement of income and retained earnings; and

(c) a statement of cash flows.[1]

6 With respect to the statement of cash flows (if required), staff recommend that the Tier 3 reporting requirements for the statement of cash flows:

(a) should not require cash flows from investing activities to be presented separately from those arising from financing activities; and

(b) should reflect cash flows from both cash and cash equivalents.

Staff have mixed views as to whether entities should be required to report cash flows from operating activities using only the direct method.

7 Staff do not have a preferred staff view with respect to simplification of the presentation requirements for the statement of profit or loss and other comprehensive income (or profit or loss) and statement of financial position.

Current requirements under Australian Accounting Standards

8 AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* specifies that the components of Tier 2 GPFS are:

(a) a statement of financial position ('balance sheet');

(b) a statement of profit or loss and other comprehensive income (statement of comprehensive income) ('SOCI') – either a one-statement or two-statement approach;

(c) a statement of changes in equity ('SOCIE');

(d) a statement of cash flows; and

(e) notes to the financial statements.[2]

9 AASB 1060 specifies 'at a minimum' information to be presented on the face of the identified financial statements, including certain subheadings and totals. Further specified information may be presented on the face of the statement or in the accompanying notes. In addition, AASB 1060 clarifies that where an entity's profit or loss for the period is the same as its total comprehensive income, the 'bottom line' of the entity's statement of profit or loss and other comprehensive income may be labelled 'profit or loss' rather than described as total comprehensive income.[3]

10 Except for the presentation of the third statement of financial position under Tier 1 (where required) and the option of not presenting a SOCIE, the presentation requirements for a set of financial statements under Tier 1 (AASB 101 *Presentation of Financial Statements* and AASB 107 *Statement of Cash Flows*) and Tier 2 are the same. However, under Tier 2 reporting requirements, an entity has the option of presenting a <u>statement of income and retained</u>

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1 That is, staff think that an entity complying with Tier 3 reporting requirements should be required to present the same set of primary financial statements as that of a NFP private sector entity complying with Tier 2 reporting requirements i.e.: (a) a statement of financial position; (b) a statement of profit or loss and other comprehensive income (a statement of income and retained earnings may be presented instead if specified conditions are met); (c) a statement of changes in equity (not required where the entity presents a statement of income and retained earnings); and (d) a statement of cash flows.

2 Having regard to consistency with the principles for developing Tier 3 reporting requirements, staff have adopted the assumption that Tier 2 reporting requirements represent the 'ceiling' for the presentation of financial statements. Consequently, this section sets out the requirements of AASB 1060 rather than AASB 101 and AASB 107.

3 AASB 1060.52(i)

earnings instead of a separate SOCI and SOCIE. This option is only available when the entity's equity movements relate only to (1) profit or loss for the period, (2) the payment of dividends, (3) correction of prior period errors, or (4) changes in accounting policies.

11 Staff note that in making its decisions about Tier 2 financial statements, the Board gave weight to maintaining consistency with the form and content of the primary financial statements specified by Tier 1 reporting requirements (AASB 1060.BC47 and BC48).[4]

Australian legislative requirements

12 Staff reviewed Australian legislation governing NFP private sector entities to understand the types of financial statements that are required to be lodged. From our review, while there was consistency in requiring the preparation of a balance sheet and profit or loss, staff observe variability in whether smaller NFP private sector entities, including those with revenue between $500,000 – $3 million, need to report, as part of the primary financial statements, information about their:

(a) cash flows;

(b) other comprehensive income; and

(c) other movements in equity.

The findings from the staff review of Australian legislation governing NFP private sector entities are summarised in Appendix A.

Summary of approaches taken by selected other jurisdictions

13 As part of our analysis on this topic, staff had regard to the requirements that apply to smaller NFP entities of other jurisdictions.[5] These are summarised in Appendix B. From our review, staff observed the following:

(a) All the reviewed jurisdictions require the preparation of a statement reporting on the entity's financial performance for the period and a statement of financial position, as well as explanatory notes. However, the type of detail required of the equivalent statement to the AASB 1060 SOCI varies, including with regard to the following aspects:

(i) in most cases, a SOCI did not form part of the specified set of financial statements because the jurisdiction's reporting requirements do not include a concept of

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4 The Board decided to carry into AASB 1060 the *IFRS for SMEs* option of not presenting a statement of changes in equity, having regard to consistency with its approach of minimising differences to the disclosures in the *IFRS for SMEs* Standard (refer AASB 1060.BC62).

5 Staff considered the components of financial statements from the following selected jurisdictions: International – *IFRS for SMEs*, United Kingdom – FRS 102 *The Financial Reporting Standards applicable in the UK and Republic of Ireland* (FRS 102) – Section 1A small entities regime and *Charities SORP (102) Accounting and Reporting by Charities: Statement of Recommended Practice* (Charities SORP), New Zealand – *Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)* (NZ Tier 3), Canada – Part III of the Handbook Accounting Standards for Not-for-profit Organisations (Canada ASNFPO), Singapore – Charities Accounting Standard, Hong Kong – Small and Medium-sized Entity Financial Reporting Standard (HK SME-FRF & SME-FRS), and United States of America – Not-for-profit Entities (Topic 958) (US ASC NFP 958).

other comprehensive income (OCI), or instead specify policies that require the recognition of OCI-like items directly in equity or as part of the profit or loss;[6] and

(ii) in some cases, a reconciliation of equity must be presented as part of the statement reporting on the entity's financial performance (i.e., the statement is akin to a statement of income and retained earnings). In other cases, similar to AASB 1060, the entity has the option, rather than a requirement, to present such reconciliation as part of its statement reporting on the entity's financial performance.

(b) Many of the reviewed jurisdictions did not require the presentation of a SOCIE. This is because the reporting requirements instead:

(i) either require an entity to, or allow it the option of, presenting that information within the financial statement reporting on its financial performance; or

(ii) either require an entity to, or allow it the option of, presenting such information in the notes to the financial statements.

(c) Many, but not all, of the reviewed jurisdictions, require a statement of cash flows to be presented by smaller entities. However, some jurisdictions restrict the direct/indirect method of reporting cash flows from operating activities. One jurisdiction (New Zealand) requires that the statement of cash flows captures only 'cash' cash flows rather than cash flows from both cash and cash equivalents.[7] Also, apart from New Zealand, all the reviewed jurisdictions require cash flows to be distinguished between operating, investing and financing cash flows – the equivalent New Zealand reporting requirements do not require cash flows from investing activities to be separately classified from cash flows from financing activities.

(d) The extent of specified line items and subtotals for the face of the specified financial statements were generally fewer or consistent to the requirements of a 'higher' reporting tier. Key exceptions to this practice were:

(i) where fund accounting was required to be applied (UK Charities SORP); and

(ii) NZ Tier 3 reporting requirements, which requires more extensive disaggregation of revenue and expenses on the face of the financial statements, rather than in accompanying notes.

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6 The NZASB recently conducted a post-implementation review (PIR) of its Tier 3 and Tier 4 Standards. As part of its actions following feedback received, the NZASB decided to provide clarity for Tier 3 entities as to the presentation requirements applicable when OCI revaluation gains and losses are recognised. In this regard, at its October 2021 meeting, the NZASB tentatively decided to develop a Tier 3 requirement that OCI items should, for Tier 3 reporting purposes, instead be recognised directly in accumulated funds (equity).7 The NZASB has indicated that it intends to consider whether to align the definition of cash with that in the NZ Tier 1 and Tier 2 Public Benefit Entity Standards as part of its response to its PIR of its Tier 3 and Tier 4 Standards.

7 The NZASB has indicated that it intends to consider whether to align the definition of cash with that in the NZ Tier 1 and Tier 2 Public Benefit Entity Standards as part of its response to its PIR of its Tier 3 and Tier 4 Standards.

Feedback from Australian stakeholders

14 Feedback relevant to the topics covered in this staff paper, including feedback from the AASB NFP Project Advisory Panel meetings held on 18 May 2021[8] and 18 October 2021, is detailed in Appendix C and summarised here. From the feedback obtained, staff observe the following:

(a) there were mixed views whether the flexibility accorded by AASB 1060 with regards to the financial statements that may be presented is appropriate, with some stakeholders considering that it presents 'unnecessary complexity'. These stakeholders thought that Tier 3 reporting requirements should instead provide clear direction for preparers and noted that such action would promote comparability between smaller entities;

(b) there were distinct differences in views as to whether the information provided by a SOCIE was sufficiently important to warrant highlighting as part of a primary financial statement vs. disclosure in the notes to the financial statements;

(c) information about OCI items was, in general, considered less useful than the net profit or loss. Some stakeholders were supportive of the Board not requiring such items to be reported alongside the entity's profit or loss for the period. Stakeholders reported that it is not uncommon for smaller NFP entities to adopt accounting policies that result in items of OCI.[9] The SOCI was not considered to be difficult to prepare;

(d) in the main, stakeholders considered the statement of cash flows to be an important component of general purpose financial statements. Stakeholders recognised that the statement of cash flows might be more difficult for preparers of smaller entities to prepare, but, rather than not requiring the statement, suggested more flexibility in its presentation be introduced to simplify its preparation;

(e) there was broad support for a 'simpler' statement of financial position (presentation of assets and liabilities in fewer/broader categories); and

(f) stakeholders identified consistency and comparability as important factors when considering line items and subtotals required on the face of the financial statements. Some users of the financial statements of charities considered that the Board should avoid creating 'boiler-plate' financial statements.

Findings from academic research and other literature

15 Findings from academic research and other literature, including AASB Research Reports and the IFR4NPO Consultation Paper, relevant to the topics covered in this staff paper, are detailed in Appendix D and summarised here. Staff highlight the following findings:

(a) users of charities' financial statements may be better served by simplified, rather than 'traditional' financial statements;

(b) having comparability between like NFP entities is important. Subjectivity and choice were regarded as affecting comparability;

(c) users of NFP financial statements may be unlikely to read the notes to the financial statements;

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8 Refer Agenda paper 3.4 *Not-for-Profit Project Advisory Panel minutes from 18 May 2021 meeting* from the 20-21 June 2021 AASB meeting.

9 Such as revaluation basis for land and buildings, and the fair value through OCI election for equity securities.

(d) A 'classified balance sheet', a statement of financial performance that includes 'thoughtful' subtotals and a cash flow statement reporting cash flows from operating activities using the direct method are amongst the types of information regarded as best helping a NFP entity to meet its users' needs;

(e) information about a NFP entity's financial stability is useful to donor-users;

(f) clearer labelling on OCI items will help non-professional investor-users reduce their information processing cost and increase the likelihood of use of such items; and

(g) the main concerns flagged by the IFR4NPO Consultation Paper relate to the form and content of the financial statements (including IFRS), rather than questioning the value of inclusion of the primary financial statements. One of the concerns was that the financial statements may not clearly communicate the extent to which resources and reserves reported in the financial statements can be used by a non-profit organisation for its ongoing activities.

Findings from staff review of a sample of financial statements

16 Staff reviewed a random non-representative sample (20) of financial statements of the ACNC registered charities with annual revenue between $500,000 – $3 million to analyse:

(a) the prevalence of entities incurring OCI;

(b) the approach taken in relation to the SOCI;

(c) the method used in reporting cash flows from operating activities; and

(d) whether a statement of cash flows is presented.

17 The sample comprised seven financial reports described as general purpose financial statements (GPFS) and 13 described as special purpose financial statements (SPFS) (as assessed by the entity). The following results were observed:

Observation	**No. of entities out of 20**
Entities presenting a statement of cash flows (16 reported cash flows from operating activities using the direct method; 15 of which also disclosed a reconciliation of cash flows from operating activities using the indirect method)	16
Entities reporting cash flows from financing activities	9
Entities that adopt accounting policies giving rise to OCI	2
Entities presenting a one-statement SOCI	15
Entities presenting a profit & loss statement that did not explicitly identify that there was no OCI incurred	5
Entities that presented a SOCIE	13
Entities presenting information otherwise required by a SOCIE as part of the statement of financial position	3[*]
Entities presenting information otherwise required by a SOCIE as part of the SOCI (i.e. statement of retained earnings and income)	3[#]
Entities that did not disclose a reconciliation of each component of equity	1[^]

Observation	No. of entities out of 20
Entities that have more than one component of equity that does not change as a result of other comprehensive income (e.g. general reserve) [of the 13 presenting a SOCIE]	5

* One further entity presented a reconciliation of retained earnings as part of both its statement of financial position and a separate SOCIE.

\# One further entity presented a reconciliation of retained earnings as part of both its SOCI and a separate SOCIE.

^ This entity also did not present a statement of financial position. Excluded from this count is one entity that did not provide a reconciliation of its asset revaluation reserve; however, there was no movement in that reserve in the period covered by the financial statements.

18 Only two of the entities surveyed adopted accounting policies resulting in items of OCI.[10] This is not unexpected, as staff note that the ACNC 2019 Annual Information Statement dataset[11] indicated that only approximately 403 of 6748 entities[12] (<6%) reported OCI for the period.

19 In addition to the above, staff note that a large majority of the entities reviewed provided a detailed disaggregation of their income and expenditures, whether on the face of the SOCI, in accompanying notes, or across both places. In several instances, the detail appeared to reflect the bookkeeping accounts used by the entity.

Options for simplification

20 With reference to the flowchart in Agenda Paper 7.1 (Appendix A)[13] for this meeting and having regard to the disclosure criteria agreed at the Board's August 2021 meeting (that requirements should be made simpler and/or less complex than Tier 2), staff have identified the following aspects for simplification for Tier 3 reporting requirements. This analysis takes into consideration current practice in Australia and international jurisdictions, feedback received from stakeholders, and research findings summarised in paragraphs 12 – 19 above:

(a) Part 1: relief from presenting certain primary financial statements (paragraphs 21 – 25); and

(b) Part 2: the presentation approach for the face of the specified primary financial statements (paragraphs 26 – 38).

<u>Part 1: Relief from presenting certain primary financial statements</u>

21 In this paper, in keeping with a 'simpler or less complex' premise, staff have assumed that the financial statements required by AASB 1060 represent the 'ceiling' for Tier 3 general purpose financial statements and, other than with respect to the simplifications proposed, will form

10 The accounting policies resulting in the items of OCI were revaluation of land and revaluation of financial assets (investments in managed investment schemes) through OCI.

11 Available from data.gov.au

12 Being entities within the Tier 3 size entity contemplated by the Board, that is, with revenue between $500,000 to $3 million.

13 The primary objective of Tier 3 reporting requirements is to develop simplified requirements for financial reporting that meet the needs of users for smaller NFP entities. The flowchart outlines the approach staff will take when developing simplification options against this objective and the agreed principles when forming the staff recommendation on the Tier 3 reporting requirements.

part of the Tier 3 general purpose financial statements. The staff analysis on simplification options focuses on:

(a) whether the presentation of other comprehensive income is an integral part of a primary financial statement (Table 1);

(b) whether a statement of changes in equity is a necessary component of Tier 3 general purpose financial statements (Table 2); and

(c) whether a statement of cash flows is a necessary component of Tier 3 general purpose financial statements (Table 3).

Table 1 Statement of profit or loss and other comprehensive income

	Option 1A: Require the presentation of a statement of profit or loss and other comprehensive income (SOCI)	**Option 1B: Require the presentation of only a statement of profit or loss. even when the entity has items of OCI**
About the option	This option proposes carrying forward into Tier 3 reporting requirements the Tier 2 requirement to present a SOCI.	This option proposes not requiring entities to present OCI and total comprehensive income as part of a statement of financial performance, regardless of whether an entity has any items of OCI. Depending on the Board's decisions with regards to the presentation of a SOCIE, the information that would have otherwise been presented in the SOCI will be presented either in the SOCIE or in the notes to the financial statements.
Jurisdiction adopting similar approach	None identified	UK FRS 102 (small entities regime); UK Charities SORP; NZ Tier 3; Canada ASNFPO; Singapore CAS; HK SME-FRF & SME-FRS; US FASB ASC NFP 958
Support for the approach[14]	• Provides transparent and relevant information to users where there are items of OCI. This arguably provides users with a more faithful representation of the entity's financial performance for that period. • Initial outreach with stakeholders has not revealed any concern with the current requirement to present a SOCI or suggest that it was difficult to prepare. Some stakeholders considered there was little value in further simplifying SOCI requirements beyond the flexibility accorded by Tier 2 requirements. • Small incremental savings and on-going compliance cost is likely minimal if a SOCI is not required, as only a small population of entities is likely to have OCI to report. • Maintains consistency with the requirements applying to other NFP entities and avoids possible issues arising for the consolidation of subsidiaries that report under Tier 1 or Tier 2 parent entities as a result of the mismatch in presentation requirements. This approach will also allow preparers and auditors to more easily move between entities given the consistency with the Tier 2 reporting requirements.	• Less financially sophisticated users of the financial statements may not fully understand that OCI item**s** are unrealised gains and losses and, as such, do not correspond to amounts (actual) available for use by the entity. This could potentially impact their donation decision making, and in this regard, be a 'cost' to entities. Not presenting OCI items on the face of the financial statement helps keep the focus on profit or loss, which arguably provides more decision-useful information to users of NFP financial statements. • Responds to feedback that the flexibility in AASB 1060 creates unnecessary complexity for entities. Clearly requiring only a statement of profit or loss (rather than a SOCI that is the equivalent of the statement of profit or loss, or specifying requirements for a SOCI that could be titled as a statement of profit or loss) simplifies interpretation for preparers compared to Option 1A. • Is a proportionate response for a lower-level differential reporting tier as it simplifies the presentation of the statement of profit or loss for the

14 Staff have not presented arguments against approaches in each of the options presented in this paper because in the drafting, we observed the arguments against each of the options to be largely duplicative of the arguments supporting the alternative option (that is, in many cases, an argument against Option A was identified as an argument in support of Option B).

	Option 1A: Require the presentation of a statement of profit or loss and other comprehensive income (SOCI)	Option 1B: Require the presentation of only a statement of profit or loss. even when the entity has items of OCI
	• Certain NFP legislation already requires smaller entities to prepare a SOCI as part of their annual financial reporting requirements.[15] In addition, the ACNC presently requires charitable organisations to report information about OCI and total comprehensive income as part of the reporter's Annual Information Statement. To no longer require the presentation of the SOCI in instances where OCI items have been incurred may be seen as a step backwards in transparency and may potentially introduce confusion for preparers reporting to ACNC, through the 'misalignment' between the sets of specified 'financial statement' information about entity performance. • Requiring the presentation of only a statement of profit or loss potentially creates complexity for preparers of an entity that incurs OCI items, as they may not appreciate that such items do not/no longer need to be reported as part of a statement of the entity's financial performance. 0	majority of Tier 3 preparers, who are not expected to incur OCI items. Given the Board develops standards to meet 'common information needs', it is arguable that the statement of profit or loss is sufficient to meet the common needs of users. • Some of the governing legislation does not specifically require, or provides smaller entities with relief from, the preparation of a SOCI. This suggests that 'headline' information about OCI may be considered by some regulators to be less pertinent to discharge of management's accountability for the entity, as arguably legislation might otherwise have been revised to require such detail in the 15 years since IFRS adoption in Australia. • May reduce the length of the financial report, if a two-statement approach is presently used. • 'Levels the playing field' for Australian NFP entities with that of similar-sized NFP entities reporting in other jurisdictions and facilitates AASB's policy in harmonisation of Trans-Tasman standard setting, as NZ Tier 3 reporting requirements require only the presentation of (in effect) a statement of profit or loss.

15 For example, NFP private sector entities subject to the *Corporations Act 2001* and other charitable organisations regulated by the ACNC are required to present the 'complete set of financial statements' identified in AASB 101 (refer Appendix A).

Table 2 Statement of changes in equity

	Option 2A: Require the presentation of a statement of changes in equity (SOCIE)	**Option 2B: Do not require presentation of a statement of changes in equity (SOCIE)**
About the option[16]	This option proposes carrying forward the Tier 2 requirement to present a SOCIE, except where the entity meets the conditions and chooses to present instead a statement of income and retained earnings.	This option proposes that a SOCIE is not presented as a separate financial statement. However, the information that would have otherwise been presented in the SOCIE (reconciliation of the movement in each equity account) must be presented in the notes to the financial statements.[17]
Jurisdiction adopting similar approach	UK Charities SORP (small entities regime) if new share equity issued, otherwise presented together with profit for the period; Canada ASNFPO (optional for the information to be combined with the statement of profit or loss)	UK FRS 102 (small entities regime); NZ Tier 3 (note disclosure required); Singapore CAS (presented with profit or loss for the period); HK SME FRF & SME-FRS (optional – either on the face or as part of note disclosure)
Support for the approach	• Initial outreach with stakeholders suggests that preparers are not concerned about the costs of presenting a SOCIE or that it might be confusing for their users to interpret. Given the information presented in a SOCIE and the flexibility available under AASB 1060, requiring the SOCIE in its existing format is unlikely to result in any significant additional preparation or other costs. • Some stakeholders (accounting advisors) think that it is important to give prominence to information about movements in the entity's equity accounts. This view is consistent with research findings that users were less likely to read the notes to the financial statements. • This option provides users with more transparency about an entity's movements in its reserves.[18]	• Many smaller entities are likely to use only one equity account (accumulated funds) and present the profit or loss for the period as the only change in equity for the reporting period. As the SOCIE in many cases will have little added value, it does not deserve presentation prominence. • Feedback suggests that stakeholders want simplicity through having fewer options and consider the flexibility available under Tier 2 reporting requirements to not present a SOCIE is unnecessary complexity. This approach simplifies interpretation for preparers as it removes judgement. • Some stakeholders regard having the information otherwise required by a SOCIE disclosed as part of the notes to the financial statements, together with other relevant information to understand the reserve, to be sufficient (and better) information to users.

16 Staff expect that the Board will, at a future stage in the project, determine whether any additional disclosures are necessary to supplement the SOCIE, for example, to provide information about the purpose and any restriction on use of a reserve.

17 Staff note that there are possible variations to this approach, for example, to incorporate the information that would have been otherwise presented by a SOCIE partly within a statement of income and retained earnings and partly within the equity section on the face of the statement of financial position. Staff have not further analysed other possible alternatives on consideration of the incremental value of doing so for the staff analysis and recommendations. Staff also think variations of Option 2B would introduce unnecessary complexity to the reporting by NFP entities as the variation is likely to be different to current requirements/common practices.

18 There are Tier 3-sized entities who use reserve accounts. In addition, feedback from charity stakeholders (practitioners and advisors) suggests that some consider the SOCIE to be an important component of GPFS as it provides information about movements in reserves that are designated to a particular purpose – provides decision-useful information to users of NFP financial statements.

	Option 2A: Require the presentation of a statement of changes in equity (SOCIE)	Option 2B: Do not require presentation of a statement of changes in equity (SOCIE)
	• Certain NFP legislation presently requires smaller entities to prepare a SOCIE as part of their annual financial reporting requirements.[19] To no longer require the presentation of this statement in instances where there have been changes in equity may be seen as a step backwards in transparency. Costs to change or clarify legislation may be required. • Maintains consistency with the requirements applying to other NFP entities and avoid possible issues for the consolidation of subsidiaries into Tier 1 or Tier 2 GPFS arising as a result of the mismatch in presentation requirements. This approach will also allow preparers and auditors to more easily move between entities given the consistency with the Tier 2 reporting requirement. • The IFR4NPO consultation paper did not suggest that presenting a SOCIE as part of the primary financial statements is not useful, or that the statement is costly to prepare. It also proposes requiring information about material funds or projects to be disclosed, which implies that information about funds and movements of those funds provide important information to users of NFP financial statements.	• Commensurate with the level of prominence given to similar information required of similar sized NFP entities reporting in other jurisdictions and facilitates the AASB's policy in harmonisation of Trans-Tasman standard setting. • Some NFP legislation does not specifically require, or provides smaller entities with relief from, the preparation of a SOCIE.[20] This suggests that information about changes in equity may be considered by some regulators to be less pertinent to discharge of management's accountability for the entity.

Table 3 Statement of cash flows

	Option 3A: Require the presentation of a statement of cash flows	Option 3B: Do not require presentation of cash flows
About the option	This option proposes carrying forward the Tier 2 reporting requirements to present a statement of cash flows.	This option proposes that a statement of cash flows is not a necessary component of the Tier 3 general purpose financial statements.
Jurisdiction adopting similar approach	UK Charities SORP (large charities within the small entities regime) ; NZ Tier 3; Canada ASNFPO; Singapore CAS; US FASB ASC NFP 958	UK FRS 102 (small entities regime); HK SME FRF & SME-FRS

19 For example, NFP private sector entities subject to the *Corporations Act 2001* and other charitable organisations regulated by the ACNC are required to present the 'complete set of financial statements' identified in AASB 101 (refer to Appendix A).

20 For example, certain Aboriginal and Torres Strait Islander entities whose income is <$5 million and predominantly from funding bodies (and which meet other specified conditions), are not required to present a SOCIE. Other examples are the Associations Incorporations Acts for NSW, NT, WA and VIC, which do not specifically require a SOCIE to be presented. (Refer to Appendix A)

	Option 3A: Require the presentation of a statement of cash flows	Option 3B: Do not require presentation of cash flows
Support for the approach	• GPFS should provide useful information to users. There is research and stakeholder feedback indicating that users find the statement of cash flows to be useful as, amongst other reasons, it provides an indication of the solvency of the entity. As such, the quality of the financial statements may not be regarded as sufficiently greater than SPFS if the statement of cash flows is not required. • Management should be monitoring cash flow movements, and so (in theory) this approach should leverage information that management already uses. For example, management may monitor cash flows to enable the preparation of donor acquittal reports on a cash basis. • Preparation challenges relate more to costs incurred in actioning the requirements for the statement of cash flows (e.g., classification), rather than a view that the financial statement does not provide useful information. The Board's proportionate response could be to require a statement of cash flows but to simplify the preparation of that statement. • The staff review found that the statement of cash flows is a required financial statement by some regulators – the Board developing a requirement to not require a statement of cash flows may seem to be a 'step backwards'. It may also reduce comparability between entities, if some entities continue to be required by legislation, to report additional cash flow information. • Maintains consistency with the requirements applying to other NFP entities. This approach will also allow preparers and auditors to more easily move between entities given the consistency with the Tier 2 reporting requirement. • The IFR4NPO consultation paper did not suggest that the statement of cash flows as part of the set of primary financial statements is not useful. • Facilitates the AASB's policy of harmonisation with Trans-Tasman standard setting given NZ Tier 3 reporting requirements require a statement of cash flows to be prepared.	• The costs (preparation, audit) to smaller entities may be proportionately greater as a result of preparer ability to employ, or limitations of, functionality within off-the-shelf accounting software packages. • There is research (albeit with regards to the public sector) suggesting that the statement of cash flows provides little value to users, as the focus of these users relates to future plans and performance measures rather than solvency of the entity. As such, not requiring the presentation of the statement of cash flows may direct users to focus on performance measures that arguably provides them with more decision-useful information. • Certain NFP legislation does not require smaller entities to prepare a statement of cash flows.[21] This suggests that information about cash inflows/outflows is for some regulators either less pertinent to discharge of management's accountability for the entity, or recognises that the costs for smaller entities exceed the benefits of having information about the entity's cash flows. • The statement of cash flows if reversed engineered to match cash movements has limited value to users of the financial statements.

21 For example, NSW Fair Trading provides relief to 'Tier 1' incorporated associations that have total revenue of <$2 million in a financial year. These entities are not required to fully comply with Australian Accounting Standards – including not needing to present a statement of cash flows – when the entity elects to present instead the information specified by Class Order 11/01 (Refer to Appendix A).

	Option 3A: Require the presentation of a statement of cash flows	**Option 3B: Do not require presentation of cash flows**
	• Preparation costs may be alleviated through better employment of available accounting software. • The statement of cash flows is an important governance tool.	

Evaluation of options against the Tier 3 Principles

22 With reference to the approach to the simplification for Tier 3 requirements outlined in Appendix A in Agenda Paper 7.1 for this meeting, in addition to the analysis in the Tables above, staff also analysed each of the proposed options against the tentative Tier 3 principles previously agreed to by Board members. Staff consider that each set of the proposed options is broadly aligned with the Tier 3 principles, but note the following:

Principles	Staff assessment
Accounting requirements do not impose disproportionate costs on preparers when compared to the benefits of the information	Although Option 3A (require a statement of cash flows) imposes greater costs to preparers and auditors compared to Option 3B (do not require a statement of cash flows), our research to date (including stakeholder feedback) suggests that the statement of cash flows is viewed as useful and an important component of GPFS. Costs could be in part attributable to different or poorer bookkeeping practices. As such, on balance, staff think that requiring a statement of cash flows does not impose disproportionate costs to preparers when compared to the benefits of the information provided about an entity's cash flows and solvency.
Consistency with the accounting principles specified by Tier 2: Australian Accounting Standards – Simplified Disclosures is desirable but might not always be warranted since Tier 3 requirements are being developed as a proportionate response	Staff think that Option 1B (require only a statement of profit or loss) and Option 2B (do not require a SOCIE) are still consistent with Tier 2 principles, as the information remains available to users within the financial statements. The consideration here is whether it is necessary to provide a 'proportionate response' in the form of simplified requirements (less judgement/interpretation) by removing the flexibility available under Tier 2 reporting requirements, or whether there is sufficient value in retaining this flexibility given that the costs of presenting such statements is not significant.
Where possible, leveraging the information management uses to make decisions about the entity's operations	In theory, staff think that management should be monitoring information about its cash flows in a manner that should result in the statement of cash flows being straightforward to prepare. However, staff have received feedback suggesting that the statement of cash flows does not correlate to the way an entity's operations might be managed.

Staff recommendations

<u>*Statement of profit or loss and other comprehensive income (SOCI)*</u>

23 On balance, staff support Option 1A (require a SOCI). Staff think that there is not a sufficient and compelling reason to warrant 'simplification' departure from Tier 2 reporting requirements, in particular:

(a) Option 1A brings the reporting practices of smaller NFP entities that adopt accounting policies that result in items of OCI in line with those of larger NFP entities, without imposing a significant additional cost to preparers;

(b) while there is merit in keeping users focused on a more decision-useful performance measure (profit or loss), users can be educated to understand what OCI represents, and will ultimately benefit through the provision of more complete and transparent information about the performance of the entity; and

(c) while the flexibility accorded by Option 1A requires more judgement compared to Option 1B (require a profit or loss only), in most instances, this should be a once-off education, rather than ongoing, cost to preparers, and could be avoided if the entity ignores the flexibility available.

Question for Board members

Q1 Do Board members support, for the discussion paper, the staff recommendation that a statement of profit or loss and other comprehensive income (SOCI) should form part of the Tier 3 general purpose financial statements (Option 1A)?

If not, what approach do Board members support?

Statement of changes in equity (SOCIE)

24 On balance, staff support Option 2A (require a SOCIE). Staff think there is not a sufficient and compelling reason to warrant 'simplification' departure from the Tier 2 reporting requirements and are persuaded to their view on reflection that:

(a) a SOCIE is not difficult to prepare; and

(b) Tier 2 reporting requirements already permit an entity to, where conditions are met, present a statement of income and retained earnings instead of a separate SOCI and SOCIE.

As such, continuing to require the SOCIE does not result in any significant cost to preparers or other stakeholders if there are no movements in equity other than changes in profit or loss, but benefits users through the presentation prominence of any movements (including OCI) in reserves.

Question for Board members

Q2 Do Board members support, for the discussion paper, the staff recommendation that a statement of changes in equity (SOCIE) should form part of the Tier 3 general purpose financial statements (Option 2A)?

If not, what approach do Board members support?

Statement of cash flows

25 On balance, staff support Option 3A (require a statement of cash flows). Staff think the benefits to users of having information about an entity's cash flows outweighs the costs of preparing the statement. Consequently, staff have not identified any sufficient and compelling reason to warrant 'simplification' departure from the Tier 2 reporting requirement to present a statement of cash flows. Staff also consider that requiring a statement of cash flows encourages entities to improve their internal reporting practices in a way that may lead to better management of the entity and could facilitate their ability to obtain financing.

Question for Board members

Q3 Do Board members support, for the discussion paper, the staff recommendation that a statement of cash flows should form part of the Tier 3 general purpose financial statements (Option 3A)?

If not, what approach do Board members support?

Part 2: The presentation approach for the face of the specified financial statements

26 The staff analysis on simplification options for the presentation approach for the face of the financial statements focuses on:

(a) whether presentation requirements for the statement of cash flows should be simplified (only relevant if the Board supports Option 3A – requiring a statement of cash flows) (paragraphs 27 – 32); and

(b) whether presentation requirements for the SOCI (or profit or loss) and statement of financial position should be simplified (paragraphs 33 – 38).

Staff analysis and recommendations – whether presentation requirements for the statement of cash flows should be simplified ***(only relevant if the Board supports Option 3A – requiring a statement of cash flows)***

27 As noted earlier, staff have assumed that, in keeping with a ‘simpler or less complex’ premise, the financial statement presentation requirements set out in AASB 1060 – including not requiring a third (opening) statement of financial position to be presented – represent the ‘ceiling’ for Tier 3 general purpose financial statements. In the case of the statement of cash flows, this extends to not requiring entities that report operating cash flows using the direct method to also disclose a reconciliation of the net cash flows from operating activities to the profit or loss.[22]

28 In acknowledgement of preparer concerns, staff observe that the board could consider introducing the NZ Tier 3 accounting standard simplifications to the statement of cash flows to remove potential areas of judgement. These simplifications are:

(a) not to require cash flows from investing activities to be presented separately from those arising from financing activities;

(b) to capture only ‘cash’ movements, rather than flows of ‘cash and cash equivalents’; and

(c) to require cash flows from operating activities to be reported using the direct method.

29 On balance, regarding the potential simplification in paragraph 28(a), staff **support** not requiring entities to present cash flows from financing activities separately from investing activity cash flows. The staff view is based on the following:

(a) this action provides simplification in interpretation by removing judgement in determining the appropriate classification of activities between operating, financing and investing activities;

(b) the benefits of retaining the distinction appear limited. Staff are of the view that there is little value from a standard-setter’s perspective in requiring such distinction for smaller NFP entities given these cash flows can be expected to be limited in nature and as each major class of gross cash receipts and gross cash payments should continue to be separately disclosed. Further, removing this distinction improves comparability between

22 Note however, charitable organisations regulated by the ACNC preparing special purpose financial statements are currently required to comply with AASB 1054. That is, these entities must provide this reconciliation.

Tier 3 entities, as payments for assets employed by the entity are 'classified' similarly whether the asset is purchased or leased;[23]

(c) this action recognises that users of NFP financial statements are likely to be more interested whether the entity has deployed cash in a manner consistent with the entity's NFP objectives and its solvency;

(d) this action recognises that management of smaller NFP entities are unlikely to monitor cash flows to such detail; and

(e) comparability of the financial statements to those of a higher reporting tier is not significantly impaired, as the information is still available to users. Consequently, there is no real loss of benefit to users of this simplification, while providing a cost saving to preparers.

30 On balance, in regard the potential simplification in paragraph 28(b), staff **do not support** requiring the statement of cash flows to capture only cash movements. For the following reasons, staff think such 'simplification' departure from Tier 2 reporting requirements will result in more cost than benefits:

(a) cash equivalents are largely similar to cash and therefore should be equally reflected in the statement of cash flows;

(b) the exclusion of cash equivalents from the statement of cash flows potentially misrepresents the financial performance and solvency of the entity to users, who may not appreciate the 'cash equivalent' exclusion and a borrower's debt-to-cash flow ratio (leverage ratio);

(c) the conversion of cash into cash equivalents, or vice versa, does not appear to fit into any of operating, investing or financing activities. The Board will be required to consider how to amend the cash flow to reflect such transactions – a cost investment for little apparent benefit;

(d) to the extent that accounting software limitations impose costs on preparers to manually incorporate cash equivalents into the statement of cash flows, staff note that transactions involving cash equivalents are unlikely to occur on a regular basis, and consequently, expect any costs in this regard to be limited; and

(e) while management may not necessarily consider the entity's holdings of cash equivalents when monitoring cash flows or reviewing available cash, having inconsistent requirements to Tier 1 and Tier 2 statement of cash flows in this regard introduces unnecessary complexity for users in an area that has not been identified by preparers as being of concern.

31 Staff also note that, following feedback from the NZASB PIR of its Tier 3 and Tier 4 reporting requirements regarding how cash is defined differently in the NZ Tier 3 accounting standard compared to NZ Tier 2 reporting requirements, the NZASB is considering options to clarify the definition of cash and the classification of short-term deposits in the NZ Tier 3 Standards. The NZASB has not yet considered how this might consequently impact the specified statement of cash flows.

32 With regard to the potential simplification in paragraph 28(c), staff have **mixed views** as to whether to support requiring entities to report cash flows from operating activities using only

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23 Note: Agenda Paper 7.3 addresses possible Tier 3 accounting for leases. Should the Board support the proposed approach of recognising only lease expense/income (Option 2 – akin to accounting for operating leases), the periodic payments for leased assets will be classified as operating cash flows.

the direct method. From our sample review, this appears to be the more common method adopted by entities.

(a) Some staff are of the view that, as per AASB 1060, entities should be permitted the choice to report cash flows from operating activities using either the direct or indirect method as this is only a presentation difference. Comparability between smaller entities is not impeded as the net cash flow from operating activities should be the same under either approach. These staff consider that departure from Tier 2 reporting requirements is not warranted in this regard as restricting the current flexibility creates costs for preparers that currently report using the indirect method. Carrying forward the present optionality into Tier 3 reporting requirements will not impose transition costs on entities that currently report using the indirect method.

These staff also note that their view is consistent with the staff support for retaining a SOCI and SOCIE.

(b) Other staff support requiring entities to report cash flows from operating activities using only the direct method. These staff consider that departure from Tier 2 reporting requirements is warranted as stakeholders have sought the removal of options and identified improved comparability between smaller entities as an expected outcome of the Board's project.

These staff recognise that this method imposes costs on preparers that might not already be using the direct method, but think the direct method results in more useful information being presented to users compared to the indirect method. However, these staff observe that, in many instances, accounting software packages should already include the functionality to generate a statement of cash flows using the direct method for reporting operating activities. These staff also expect that management will likely already be using such data as it communicates more relevant information for its decision-making. Consequently, on balance, these staff consider that the costs of this simplification do not exceed its benefits.

Questions for Board members

Q4 Do Board members support, for the discussion paper, the staff recommendation not to require cash flows from investing activities to be presented separately from those arising from financing activities? If not, what approach do Board members support?

Q5 Do Board members support, for the discussion paper, the staff recommendation that the statement of cash flows should reflect cash flows from both cash and cash equivalents? If not, what approach do Board members support?

Q6 Do Board members support:

(i) requiring cash flows from operating activities to be reported using the direct method only; or

(ii) carrying forward the Tier 2 requirement to report cash flows from operating activities using either the direct method or indirect method?

If not, what approach do Board members support?

Staff analysis and recommendations – whether presentation requirements for the SOCI (or profit or loss) and statement of financial position should be simplified

33 Staff observe that the Board could, in acknowledgement of preliminary stakeholder feedback received and the possible practices of entities suggested by its review of a sample of financial

statements, consider tailoring the prescribed line items and subtotals for the face of the SOCI and statement of financial position to line items and terminology common to smaller NFP entities. That is, the prescribed items for the face of the SOCI (or profit or loss) and statement of financial position may differ from those specified by AASB 101 and AASB 1060.

34 Examples of tailoring could include:

(a) specifying broader groupings for assets and liabilities on the statement of financial position (e.g., presenting computer software together with property, plant and equipment);

(b) requiring the 'surplus for the period' as a subtotal rather than 'profit for the period'; or

(c) prescribing that income and expenses be disaggregated on the face of SOCI (or profit or loss).[24,25]

35 Tailoring of the prescribed line items and subtotals for the face of the SOCI and statement of financial position to reflect line items and terminology common to smaller NFP entities may be regarded to be an appropriate proportionate response by the Board on consideration of the following:

(a) such action is consistent with the Board's decision at its 21 – 22 June 2021 meeting to draft a Tier 3 pronouncement in simple language using terminology tailored to NFP private sector entities of the size contemplated by the Board;

(b) specifying line items that are geared towards the smaller NFP entity population may facilitate consistency in reporting and thereby enhance comparability amongst Tier 3 entities;

(c) prescribing more information for the face of the financial statements may better communicate useful information to NFP users who may not necessarily read the notes to the financial statements; and

(d) such action provides preparers with better clarity, which may simplify their preparation of the financial statement and so, reduce their costs.

36 Some might be of the view that the tailoring suggested above is inconsistent with the Board's *NFP Standard-Setting Framework*, given that the Board had previously decided that no amendment was necessary to IFRS-prescribed line items and subtotals for application of the requirement by NFP entities. For this reason, rather than NFP-tailoring, another possible approach is for the Board to carry forward Tier 2 presentation requirements for the face of the SOCI (or profit or loss) and statement of financial position, supplemented by new guidance or education material that would assist preparers who are not (or could reasonably not be expected to be) 'financial reporting experts'.[26] This approach:

(a) maintains the consistency of presentation requirements across all reporting tiers and better invites the entity to use the financial statements to 'tell their story' (as the approach is expected to accord entities more flexibility/judgement than the NFP-tailoring approach);

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24 Staff think that the actual line items and subtotals do not need to be determined by the Board at this stage of the project.

25 This paper does not address potential note disclosures such as restrictions on use of a reserve or narrative description on an entity's reserve policy.

26 That is, the simplification approach is via explanation and interpretation, rather than via disclosure criteria.

(b) recognises that some may contend that the NFP-tailoring approach imposes more requirements (or requires more transparency) compared to entities complying with AASB 1060; and

(c) acknowledges that as NFP entities operate across a wide range of fields, it is uncertain whether the 'tailoring' can be appropriate for all smaller NFP entities across the sector.

37 In addition, staff considered that a possible manner of further simplifying the presentation requirements for the SOCI (or profit or loss), and statement of financial position is for the Board to mandate the line items and subtotals that must be shown by all entities; that is, a checklist approach that is not subject to materiality and which accords entities no opportunity to show more/less or different disaggregation. Some might contend that this approach is a proportionate response for smaller entities as it provides clear direction to preparers, removes judgement, and provides desired comparability between entities. However, this approach might not be considered appropriate for the following reasons:

(a) it is important an entity has the ability to use the financial statements to 'tell its story' to users of its financial statements. Consequently, preparer judgement and the materiality concept are important considerations for general purpose financial statements, and should apply also to the face of the primary financial statements;

(b) feedback from the NZASB PIR of its Tier 3 and Tier 4 reporting requirements included that the presentation of the specified categories of income and expenditure are difficult to apply in practice and may not easily address the needs of all users. This suggests that it might be difficult for the Board to develop a list of mandatory line items that is relevant to, and appropriate for, Tier 3 NFP entities operating across a broad range of fields; and

(c) a checklist approach is likely to impose more costs on entities compared to an NFP-tailoring approach or supplementary guidance/education material approach (e.g. to match record-keeping to the specified checklist items).

38 Staff note that the IASB's Primary Financial Statements project is reviewing presentation on the face of the primary financial statements, with a focus on the statement of profit or loss.[27] Outcomes from that IASB project are expected to change the face of some of the primary financial statements. Consequently, the IASB project could, but does not have to, impact the Board's decision making with regards to the face of the primary financial statements for its Tier 3 reporting requirements. The IASB is presently redeliberating the proposals in its issued exposure draft. Its published work programme does not, at this time, include any indicative timing of any final amendments.

Question for Board members

Q7 Staff have not formed a preferred staff view on an approach Tier 3 reporting requirements should take with respect to the prescribed line items and subtotals for the face of the SOCI and statement of financial position. However, do Board members support, for the discussion paper, including a preliminary view to:

(a) prescribe line items and subtotals for the face of the SOCI (or profit or loss) and statement of financial position that are tailored to reflect line items and terminology common to smaller NFP entities (an NFP-tailoring approach);

27 Information about the IASB project on Primary Financial Statements is available on the IASB website at https://www.ifrs.org/projects/work-plan/primary-financial-statements/#about

(b) replicate the Tier 2 presentation requirements for the face of the SOCI (or profit or loss) and statement of financial position, supplemented by new guidance or education material (a supplementary guidance/ education material approach); or

(c) mandate the line items and subtotals to be presented on the face of the SOCI (or profit or loss) and statement of financial position (a checklist approach).

Alternatively, would Board members prefer not to form a preliminary view and to seek feedback on the three approaches suggested above as part of its discussion paper?

Appendix A: Australian legislative requirements

A1. The findings from the staff review of Australian legislation governing not-for-profit (NFP) private sector entities are summarised in paragraphs A2 – A6 below.

Entities subject to the Corporations Act 2001

A2. A NFP private sector entity subject to the *Corporations Act 2001* and that is a:

(a) public company limited by guarantee must prepare financial statements that comply with Australian Accounting Standards unless it has (consolidated) revenues of <$250,000 and other conditions are met (i.e., it is a small company limited by guarantee). Having regard to the application paragraphs of Australian Accounting Standards, these entities are required to present the 'complete set of financial statements' identified in AASB 101 *Presentation of Financial Statements* (including the third statement of financial position, where required) if the entity prepares special purpose financial statements (SPFS).[28] If the entity prepares Tier 2 general purpose financial statements (GPFS), it may have the option of not presenting a statement of changes in equity and will not be required to present a third statement of financial position; and

(b) small proprietary company need not prepare financial statements unless it receives a direction from ASIC (or a member direction) to do so.

Other NFP private sector entities

A3. Having regard to the application paragraphs of Australian Accounting Standards, a small or medium-sized NFP private sector entity that is required to prepare financial statements that comply with Australian Accounting Standards but that is not subject to the *Corporations Act 2001* is not 'automatically' required to comply with AASB 101 and AASB 107 *Statement of Cash Flows*, except where the entity is a reporting entity or otherwise elects to prepare GPFS. In some cases, the governing legislation may direct such entities to comply with AASB 101 and AASB 107 (amongst other Standards).[29] In other cases, there is no similar direction, and consequently, where prepared, the SPFS may not necessarily include the 'complete set of financial statements' described in AASB 101.[30]

A4. In various cases, the governing legislation provides relief for some smaller entities from the requirement to prepare financial statements that comply with Australian Accounting Standards. For example:

(a) certain Aboriginal and Torres Strait Islander entities whose (1) income is <$5 million and predominantly from funding bodies, and (2) as a condition of the provision of funding submits to the funder an annual report accounting for the expenditure of that funding, need present only an income and expenditure statement and a balance sheet that

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28 AASB 1057 *Application of Australian Accounting Standards* specifies that AASB 101 *Presentation of Financial Statements,* AASB 107 *Statement of Cash Flows,* AASB 108 *Accounting Policies*, *Changes in Accounting Estimates and Errors,* AASB 1048 *Interpretation of Standards* and AASB 1054 *Australian Additional Disclosures* apply to each NFP entity that is required to prepare financial statements in accordance with Part 2M.3 of the *Corporations Act 2001*.

29 For example, the *Australian Charities and Not-for-profits Commission Regulation 2013* and *Higher Education Support Act 2003* require that SPFS prepared to satisfy an entity's regulatory reporting requirements must comply with AASB 101 and AASB 107. Staff note that such SPFS may not present instead the 'simplified' suite of primary financial statements identified in AASB 1060 (refer paragraph A2 above).

30 For example, the Associations Incorporations Acts for NSW, NT, WA and VIC require the financial statements to be prepared in accordance with Australian Accounting Standards and that the financial statements must report on the association's income and expenditure, assets and liabilities. However, there is no specific requirement for a statement of cash flows or for other comprehensive income and other changes in equity to be disclosed as part of the primary financial statements presented (except where the entity is a charity submitting reports to the ACNC).

reflects the income, expenditure, assets and liabilities that have not already been included in the reports submitted to the funder(s). Neither a statement of changes in equity nor a statement of cash flows is required;[31] and

(b) NSW 'Tier 1' incorporated associations that report to NSW Fair Trading and which have total revenue of <$2 million in a financial year are not required to fully comply with Australian Accounting Standards where the entity elects to present instead the information specified by Class Order 11/01.[32] Besides an income statement and balance sheet, this includes a statement of any movements in equity during the period. A statement of cash flows is not required.

A5. In instances where the governing legislation does not require that the financial statements of smaller-sized entities (including those within the revenue size band contemplated by the Board) prepared for regulatory purposes comply with Australian Accounting Standards,[33] the legislation specifies the financial information that must be provided:

(a) in general, this includes a report on the entity's income and expenditures for the period, and information about its assets and liabilities. The governing legislation is often silent whether this includes information about the entity's other comprehensive income (OCI) and total comprehensive income for the period, or about other changes in equity; and

(b) in many cases, information about the entity's cash flows is not specifically required.

A6. Notwithstanding paragraph A5 above, 'small' co-operatives[34] across all states and territories – which include entities of the Tier 3 size contemplated by the Board and which are required to prepare financial statements that present a true and fair view of the co-operative's financial performance, financial position and cash flows – are required to present:

(a) an income and expenditure statement;

(b) a balance sheet (i.e. statement of financial position);

(c) a statement of changes in equity; and

(d) a statement of cash flows.

A small co-operative that has consolidated revenue of <$750,000 and consolidated gross assets of <$250,000 is exempted from the requirement to prepare a statement of cash flows.

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31 The *Corporations (Aboriginal and Torres Strait Islander) Regulations 2017* otherwise require medium and large-sized indigenous corporations to apply the Australian Accounting Standards as though the entity is a SAC 1 reporting entity (refer s.23 of the Regulation).

32 Class Order 11/01 is issued under s.53(1) of the *Associations Incorporation Act 2009* and Clause 8(2) of the *Associations Incorporation Regulation 2010.*

33 For example, the requirement is only that the financial statements present a true and fair value of the entity, without also requiring compliance with Australian Accounting Standards.

34 A co-operative and the entities it controls (if any) is a 'small co-operative' if it meets specified conditions including any two of the following size criteria: (1) consolidated revenue of <$8 million for the financial year; (2) consolidated gross assets of <$4 million at the end of the financial year; or (3) fewer than 30 employees at the end of the financial year.

Appendix B: Summary of approaches taken by selected other jurisdictions

B1. The table and further detail below summarise the requirements of other jurisdictions with respect to what forms a complete set of financial statements:[1]

Financial statement	UK FRS 102 (small entities regime)[a]	UK Charities SORP (small entities regime)[a]	NZ Tier 3[h]	Canada ASNFPO	Singapore CAS	HK SME-FRF & SME-FRS	US FASB ASC NFP 958
Statement of profit or loss	✓[a]	✓	✓[c]	✓[e]	✓[f]	✓[f]	✓[g]
Statement of profit or loss and other comprehensive income (disclosure of OCI on the face of a statement of financial performance)	×[a]	×	×[c]	×[e]	×[f]	×[f]	×[g]
Statement of financial position	✓	✓	✓	✓	✓	✓	✓
Statement of cash flows	×[a]	✓ (FRS 102 exemption available only for 'smaller charities')[b]	✓	✓	✓	Optional	✓
Statement of changes in equity	×[a]	✓ (but only where there has been an issue of new share equity; otherwise presented together with the profit for the period)	×[d]	✓ (option for the information to combined with the statement of profit or loss)	× (presented together with the profit for the period)	Optional (may be presented in the notes to the financial statements)	×[g]

Notes to the table

1 Staff considered the components of financial statements from the following selected jurisdictions: International – *IFRS for SMEs*, United Kingdom – *FRS 102 The Financial Reporting Standards applicable in the UK and Republic of Ireland* (FRS 102) – Section 1A small entities regime and Charities SORP (102) *Accounting and Reporting by Charities: Statement of Recommended Practice* (Charities SORP), *New Zealand – Public Benefit Entity Simple Format Reporting – Accrual* (Not-for-profit) (NZ Tier 3), Canada – Part III of the Handbook Accounting Standards for Not-for-profit Organisations (Canada ASNFPO), Singapore – Charities Accounting Standard, Hong Kong – *Small and Medium-sized Entity Financial Reporting Standard* (HK SME-FRF & SME-FRS), and United States of America – Not-for-profit Entities (Topic 958) (US ASC NFP 958).

The *IFRS for SMEs* was also considered but has been excluded from this table as the Australian Tier 2 reporting requirements were based on and are consistent with this Standard. All jurisdictions require the financial statements to be accompanied by explanatory notes and, other than the USA,[35] require a certain extent of comparative information to be disclosed. Different titles may apply.

a Under the UK Companies Act 2006, a company is a small company (small entity) if it meets at least two of the following conditions: (1) annual (group) turnover is ≤£10.2 million; (2) (group) total assets ≤£5.1 million; or (3) the average (group) number of employees ≤50. A small company that is a charity is not able to access all of this reduced set of financial statements – a different threshold applies.

Small entities that choose to comply with the UK small entities regime are not required to prepare a statement of profit or loss and other comprehensive income (SOCI) (only an income statement), statement of changes in equity (SOCIE) or statement of cash flows. The entity is nevertheless encouraged, as part of giving a true and fair view of the assets, liabilities, financial position and profit or loss of the entity, to prepare a SOCI and a SOCIE (or statement of income and retained earnings) where the entity has recognised OCI or transacted with equity holders. A small entity that does not apply the small entities regime presents instead the same suite of financial statements required by AASB 1060 and *IFRS for SMEs* – this includes the option of presenting a statement of income and retained earnings, where specified conditions are met.

b A smaller charity is one that has gross income of ≤£500,000 (UK) or ≤€500,000 (Republic of Ireland). While 'smaller charities' are not required to prepare a statement of cash flows, the Charities SORP encourages its inclusion as a matter of good practice.

c NZ Tier 3 reporting requirements do not currently include accounting policies that would result in OCI-like items; however, entities may elect to opt up to Tier 2 accounting policies which permit such treatment. The NZASB recently conducted a post-implementation review of its Tier 3 and Tier 4 Standards. As part of its actions following feedback received, the NZASB has decided to provide clarity for Tier 3 entities as to the requirements applicable when OCI-like revaluation gains and losses are incurred. From the NZASB October 2021 meeting, AASB staff understand that this may result in the NZASB developing a Tier 3 requirement for revaluation gains and losses to be recognised directly in accumulated funds (equity) (consequently, the NZASB is unlikely to require presentation of a statement akin to the AASB 1060 SOCI).

d While NZ Tier 3 reporting requirements do not require the presentation of a SOCIE, the Standard requires an entity to provide, as part of its note disclosures, an explanation of the movements between the opening and closing balances of all categories of equity. That is, the

35 Although not required, the inclusion of comparative information – which may be provided in a summarised form – is encouraged.

information that would otherwise have been presented as part of SOCIE is provided in the notes.

e The Canada ASNFPO requires certain OCI-like gains and losses to be recognised directly in net assets (equity). The entity's statement of operations (statement of profit or loss) does not extend to showing such gains and losses – however, these transactions are separately reported as part of the statement of net assets (statement of financial position).

f The Singapore CAS and HK SME-FRS & SME-FRS do not specify accounting policies that result in OCI-like items. However, both Standards require note disclosure of information about certain unrecognised unrealised gains and losses relating to investment assets held.

g There is no equivalent OCI or OCI-like concept under US ASC NFP 958 for NFP entities that are not health care entities. Hence, gains and losses that would be considered as an item of OCI under Australian GAAP are reported as part of the 'bottom line' total 'changes in net assets' (equivalent to total comprehensive income). Different reporting requirements apply to NFP health care entities, which are treated more like a for-profit entity and required to report a measure of performance akin to profit or loss. These entities are required to also present a statement of changes in net assets/equity, which includes movements in net assets that are not "revenues" or "expenses".

h NZ Tier 3 reporting requirements additionally require a statement of service performance as part of the financial statements.

<u>Statement of profit or loss and other comprehensive income (SOCI)</u>

B2. While all the considered jurisdictions require the preparation of a statement reporting on the entity's financial performance for the period, the level and type of detail required of an equivalent statement to the AASB 1060 SOCI varies, including with regards to:

(a) whether or not a reconciliation of equity is required as part of that statement (i.e., the statement is akin to a statement of retained earnings and income) – the Charities SORP and Singapore CAS require the information that would otherwise have been included in the SOCIE to be provided as part of their statement of financial activities (their financial performance statement). Similarly, FRS 102 (other than if the small entity regime applies) and Canada ASNFPO allow the information that would otherwise have been included in a SOCIE to be provided as part of the profit or loss statement;

(b) the extent of disaggregation by funding type – some jurisdictions require or permit a fund accounting approach and so identify more detail to be presented as part of the statement reporting on the entity's financial performance. For example, the Charities SORP requires each line item of income and expenses (including OCI items) presented to be disaggregated by funding type (restricted/ unrestricted/ endowment) on the face of the financial statement;

(c) the extent to which income should be disaggregated on the face of the financial statement – FRS 102 and HK SME-FRF & SME-FRS require the disclosure of the aggregated amount of revenue on the face of the statement, while the Charities SORP, Singapore CAS and NZ Tier 3 reporting requirements require disaggregation of revenue/income on the face of the statement; and

(d) how expenses are to be disaggregated – by activity (Charities SORP,[36] Singapore CAS), nature or function (UK FRS 102, NZ and HK SME FRF & SME-FRS) or both (US ASC NFP 958), or by program, nature or function (Canada ASNFPO).

Statement of cash flows

B3. Many, but not all, of the reviewed jurisdictions require a statement of cash flows to be presented by smaller entities. Standard-setters provided the following reasons for requiring the statement of cash flows to be included as a component of the financial statements:

(a) it ensures the movement of cash balances and cash position is actively considered by the charity as part of its annual reporting cycle;

(b) it is useful to funders for making solvency assessments;

(c) it would be of interest to certain resource providers; and

(d) it helps or enhances the understanding of the organisation for users of financial statements.

B4. In the main, the reviewed jurisdictions require cash flows to be distinguished between operating, investing and financing cash flows, and allow operating cash flows to be presented using either the direct or indirect method. In addition, like AASB 107, the statement captures flows of both cash and cash equivalents. However,

(a) the Singapore CAS requires operating cash flows to be presented using the indirect method; and

(b) NZ Tier 3 reporting requirements specify that:

(i) only 'cash' cashflows are included in the statement of cash flows;

(ii) operating cash flows are to be presented using the direct method; and

(iii) cash flows from investing and financing activities may be presented together.[37]

Presentation on the face of specified financial statements

B5. The extent of prescription of line items and subtotals for the specified financial statements in the reviewed jurisdictions were generally fewer or similar to the requirements of a 'higher' reporting tier. For example:

(a) HK SME-FRF & SME-FRS does not require the separate presentation on the face of the statement of financial position of investment property, biological assets and financial liabilities besides trade and other payables: in contrast, the Hong Kong Financial Reporting Standard for Private Entities (which is based on *IFRS for SMEs*) requires separate identification of such line items. Similarly, the NZ Tier 3 accounting standards prescribes fewer line items to be presented in the statement of financial position compared to NZ Tier 2 PBE Standards, consistent with topic coverage of the pronouncement; and

36 Smaller charities may instead provide a disaggregation of income and expenditure that is based on the nature of the income and expenditure (refer paras. 4.22 – 4.23 of the Charity SORP).

37 The requirement to require the direct method of preparing the statement of cash flows is on the assumption that most entities applying the Tier 3 Standard will use cash books as their primary source of information (para. BC12(e) of NZ Tier 3).

(b) the financial statement line items and subtotals required under FRS 102 (small entity regime) and those specified by FRS 102 are the same (except for the presentation of OCI).

B6. Staff note, however, that in certain cases, the level of prescription is greater. For example:

(a) the NZ Tier 3 accounting standard requires a more extensive disaggregation of revenue and expenses to be made on the face of its statement of financial performance compared to the corresponding NZ Tier 2 PBE Standards. (Similar to AASB 1060, the Tier 2 PBE Standards require the disaggregation of revenue to be made either on the face of the financial statement or in the notes, along with disclosure of certain items of expense); and

(b) the UK Charities SORP sets out more prescriptive requirements for the face of a charity's statement of financial activities (being its statement of financial performance) compared to FRS 102.

Appendix C: Feedback from Australian stakeholders

C1. During August – October 2020, staff conducted preliminary targeted outreach on possible key elements of a differential reporting framework for NFP private sector entities.[38] The feedback from this outreach indicated that:

(a) in general, staff of various regulators did not raise concerns that different financial statements should be required or financial statements that may not be useful. They considered that the extent of disaggregation of information on the face of the financial statement specified by NZ Tier 3 reporting requirements to be sufficient; and

(b) there was broad support for a 'simpler' statement of financial position. Amongst other aspects, staff understand this to extend to stakeholder support for the presentation of assets and liabilities in fewer/broader categories, and a further reduction in balance sheet-related disclosures.

C2. The AASB NFP Project Advisory Panel met on 18 May 2021[39] and 18 October 2021. The feedback from these meetings as summarised by staff included that:

(a) some panel members considered that the flexibility accorded by AASB 1060 with regards to the financial statements that may be presented is 'unnecessary complexity'. These panel members thought that Tier 3 reporting requirements should instead provide clear direction for preparers and noted that such action would also promote comparability between Tier 3 entities. There was some support for the set of financial statements to reflect that specified by previous Australian GAAP: a profit or loss, a balance sheet, and a cash flow statement; and a reconciliation of each equity account provided as part of the notes to the financial statements;

(b) Tier 3 should (at a maximum) replicate the Tier 2 approach for the SOCIE. At its October 2021 meeting, it was clear that while panel members consider the information provided by a SOCIE to be important, there were distinct differences in views as to whether a separate financial statement was necessary. Members that supported retaining the financial statement considered that the information about movements in reserves is sufficiently important to users to warrant it to be highlighted as part of a primary financial statement, rather than merely reported as part of the notes to the financial statements. Other members considered that the simplicity of most SOCIEs did not warrant the Board developing a requirement for presentation of such statement, given its information value. A further member noted the value to a preparer of being able to use the SOCIE to explain its restricted assets or OCI movements is tempered by acknowledgment that a SOCIE by itself may be insufficient without related note disclosure;

(c) it is not uncommon for smaller NFP entities to apply the revaluation basis for land and buildings or the fair value through OCI election for equity securities held.[40] Within this lens, while a majority considered that a SOCI is not difficult to prepare, these panel members were of the view that users were less likely to find OCI information useful compared to the net profit or loss. Academic panel members reported that this is consistent with existing accounting studies which have found that information

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38 The feedback is summarised in Agenda Paper 5.1 *Summary of initial feedback received from regulators and conceptual framework panel members*, 16-17 September 2020 AASB meeting.

39 Refer Agenda paper 3.4 *Not-for-Profit Project Advisory Panel minutes from 18 May 2021 meeting* from the 20-21 June 2021 AASB meeting.

40 A panel member cautioned that their feedback as to the prevalence of such accounting policies amongst smaller entities might be biased, as entities with 'simpler' operations and who might not adopt such accounting policies may be less likely to engage accounting advisors.

regarding OCI items is not used by users. Some panel members suggested that it is preferable to keep OCI-related information separated from 'realised profits', observing that information about OCI items will be captured by the SOCIE or could be required by note disclosure. Many of the panel members supported only requiring a statement of profit or loss with information of OCI items to be provided within the SOCIE or reported within note disclosure about movements in equity. One member suggested simplification to the language in explaining OCI may help improve user understandability of OCI items;

(d) while panel members generally considered the statement of cash flows difficult (or at least not simple) for preparers of smaller entities to prepare, they held differing views as to whether a statement of cash flows is a necessary component of Tier 3 GPFS. Staff think that members, in the main, thought it was an important part of the GPFS as it provides users with useful information on the entity's cash flows (including to understand the entity's solvency), but suggested more flexibility in presentation be introduced to simplify its preparation.[41] Preparation difficulties identified by panel members relate to how GST should be treated within the statement of cash flows, and accounting software limitations. Panel members also noted that challenges – either 'true' challenges or challenges as a result of insufficient preparer effort into configuring the software appropriately – in validating the report produced by the accounting software and ensuring compliance with the format specified by Australian Accounting Standards creates costs for entities; and

(e) members thought consistency and comparability are important factors when considering line items and subtotals required on the face of the financial statements. Members generally considered that the level of detail should not be more than what is presently required for Tier 2 requirements. Some members noted practical challenges for entities resulting from the non-NFP specific language employed by AASB 101 / AASB 1060 (in particular, with regards to revenue vs. income) and would welcome the Board providing guidance or clarity in this regard.

C3. In addition, staff sought feedback about aspects of this project at the October 2021 ACNC Sector and Advisor forums. Staff received feedback that:

(a) some practitioner and advisor participants considered that the statement of cash flows and the SOCIE to be important components of the GPFS of smaller entities. However, a user considered the SOCIE had less information value as the information is already presented in the statement of profit or loss, statement of financial position or related note disclosures;

(b) while a user participant considered that having information on OCI items was useful, some practitioner and advisor participants considered that such information had less information value. However, these participants also thought that there was little value in further simplifying the SOCI beyond the flexibility already accorded by Tier 2 reporting requirements; and

(c) user participants considered guidance should be developed on disclosure requirements for the specified financial statements rather than specifying line items and subtotals to avoid 'boiler-plate' financial statements. A user participant also considered disclosures

41 One member suggested that the management team of some Tier 3 entities may not use a statement of cash flows of the form required by AASB 107, or a simplified version thereof, in their decision making about the entity's relevant activities. That member suggested that the statement of cash flows is prepared only as a compliance exercise for regulatory purposes and considered that a simplified version of statement of cash flows might still not provide useful information.

such as disaggregated information on expenditure categories, availability of reserves and service performance information to be important to users.

C4. Staff have also received informal feedback from partners of a Large National Networks audit firm reinforcing other feedback and staff findings that there are entities applying the revaluation basis for land and buildings or the fair value through OCI election for equity securities held. Some respondents considered the set of financial statements and current flexibility accorded by AASB 1060 to also be appropriate for Tier 3 GPFS; however, there was some uncertainty whether smaller entities should be required to prepare a statement of cash flows. In addition, there was a suggestion that the Board develop a requirement that government funding be presented as a separate line item within cash flows from operating activities[42] and a suggestion that consideration be given to whether entities should be required to separately identify 'other' administration expenses separately from those expenses incurred by the NFP entity in pursuit of its NFP objectives.

42 As recommended by the ACNC Annual Financial Report Disclosure – Best Practice publication, available online from the ACNC website.

Appendix D: Findings from academic research and other literature

D1. Staff note the following findings from its review of the AASB research reports and other academic research:

(a) *Five dimensions of effectiveness for nonprofit annual reports* (Gordon, T. P., Khumawala, S. B., Kraut, M. & Neely, D. G., 2010)[43] suggests that, as best practice, an NFP entity should present audited financial statements including the audit opinion, a 'classified balance sheet', thoughtful subtotals within the statement of financial performance, a statement of cash flows prepared using the direct method, a statement of functional expenses,[44] and as much clarity in the notes as possible. (The identified best practice information also includes disclosure of related-party and non-mission focussed expenditure and tabulated non-financial performance data). The authors considered such information would best help an NFP entity to meet user needs of completeness, accessibility, transparency, full disclosure and relevance (as summarised in AASB Research Report 16, April 2021);

(b) *Charity accounting – an empirical study of the information needs of contributors to UK fund raising charities* (Hyndman, N., 1990)[45] and *Contributors to charities – comparison of their information needs and the perceptions of such by the providers of information* (Hyndman, N., 1991)[46] conclude that presently, a charitable entity's accountability to its contributors is not discharged in the most effective manner, and there is generally complacency among preparers. The latter study also suggested that where financial statements are prepared, contributors (i.e., users of the financial statements) would be better served by simplified (rather than traditional) audited financial statements (as summarised in AASB Research Report 16, April 2021);

(c) *Is Accounting Information from Non-Profit Organisations Useful to Donors? A Review of Charitable Giving and Value-Relevance* (Parson, L. M.,2003)[47] identified that an NFP entity's financial stability (similar to the notion of 'going concern') is important to donors. The suggested measures of financial stability included information to understand the adequacy of equity, revenue concentration and level of administrative cost and operating margins. These have been identified by other research studies as good predictors of financial vulnerability in NFPs and financial distress;

(d) AASB Research Report 16 notes that with respect to the public sector, there is academic research indicating that internal and external users identify revenue and expenditure items to be more important than items in the statement of financial position or statement of cash flows. A study of New Zealand public sector preparers found that these preparers regarded the income statement to be the most 'useful' statement to users, and the statement of cash flows to be of least value. A high proportion of these preparers also considered that the benefits of reporting exceeds their costs (contradicting the view mooted by some that financial statements are mainly compliance documents that provide little value);

43 Published in Nonprofit management & leadership, 2010

44 A statement of functional expenses is sometimes presented by USA not-for-profit entities to meet the specified granularity requirements for expenditures incurred.

45 Published in Financial Accountability & Management, 2008

46 Published in Financial Accountability & Management, 1991

47 Published in Journal of Accounting Literature, 2003

(e) AASB Research Report 16 also observed that there is little research to date to decisively conclude whether the financial statement line items of a NFP entity should mirror those of a for-profit entity; and

(f) *Re-orienting the Statement of Cash Flows around Cash Flows to Equity Holders* (Dichev, I. D, 2017)[48] proposes a case for re-orienting the statement of cash flows around cash flows to equity holders and posits three key benefits from the re-orientation – (1) it aligns the statement of cash flows with the other financial statements (i.e. the income statement reports the net income being the net periodic benefit from equity ownership and the balance sheet reports on shareholders equity which is equity claim on net assets), (2) is more directly attuned to the needs of major users of financial statements especially investors who are interested in equity cash flows for forecasting and valuations, and (3) it is easy to implement, essentially limited to matters of format and presentation.

D2. In addition, staff are aware of two Australian research studies currently being conducted. The studies have not yet been finalised or published:

(a) with regards to the study on the information needs of users of not-for-profit GPFS, staff understand that it is expected to communicate the research participants' view that:

(i) having comparability between like entities is important. Factors identified as impairing comparability included having accounting policy choices, subjectivity in applying accounting requirements, and an entity's ability to tailor its financial statements to meet its funding-imposed reporting obligations; and

(ii) users are unlikely to read the notes to the financial statements[49]; and

(b) with regards to the study on the presentation prominence of OCI and its influence on the decisions of non-professional investors, while the study was conducted based on for-profit entities, staff understand it is expected to communicate that clearer labels on OCI items will help financial statement users reduce their information processing cost and increase the likelihood of use of such information. However, due to the non-recurring nature of OCI items, the findings also suggest that it is a weak performance indicator in predicting future cash flows and future income compared to 'net income'.

IFR4NPO Consultation Paper – Financial statement presentation

D3. In January 2021, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued the IFR4NPO Consultation Paper. While not specific to entities of the size contemplated by the Board, the Consultation Paper identified and described various NFP-specific reporting issues and sought feedback on proposed methods of addressing these issues. Amongst these was the issue of financial statement presentation.

D4. The Consultation Paper did not suggest that different financial statements from those identified under frameworks including IFRS and IPSAS should be presented, or that certain financial statements were not necessary. Rather, it observed that the stakeholder concern is whether the form and content of those financial statements is appropriate and sufficient to meet stakeholder needs. This included a concern that the content and the presentation of financial statements may not clearly communicate the extent to which resources and reserves

48 Published in Abacus, 2021

49 These research studies will be presented at the AASB November 2021 Virtual Research Forum.

reported in the financial statement can be used by a non-profit organisation for its ongoing activities.[50]

D5. Other concerns pertaining to the presentation, content and scope of financial reports highlighted by the IFR4NPO consultation paper related to whether entities should be allowed to choose whether to classify expenses by nature or function, how to identify and account for fundraising costs, and approaches to recognise the value of narrative reporting (management commentary).[51]

50 The Consultation Paper proposed different approaches that jurisdictions might consider to address this concern, including (1) developing NFP-specific guidance to assist preparers in making decisions about further information to include on the face of the financial statements or in the notes, (2) incorporating fund accounting into the face of the specified financial statements, including reporting restricted income separately from unrestricted income, and (3) requiring additional information about material funds or projects to be disclosed in notes to the financial statements.

51 The feedback on the consultation paper is not yet available. Staff will continue to monitor the project and, if necessary, bring developments to a future Board meeting.