Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M186
Topic:	**Tier 3 – Initial measurement of donated/granted non-financial assets**	**Agenda Item:**	4.3
		Date:	22 March 2022
Contact(s):	Carmen Ridley cridley@aasb.gov.au Maggie Man mman@aasb.gov.au Fridrich Housa fhousa@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High High Initial deliberations

The objective of this paper

1 The objective of this staff paper is for the Board to **consider** the staff analysis and recommendation and **decide** on the income measurement of:

- the initial measurement of assets and inventory acquired for significantly less than fair value to further a not-for-profit (NFP) entity's objectives; and
- accounting for volunteer services of a not-for-profit (NFP) private sector entity.

2 As noted in Agenda Paper 4.1, staff plan to bring staff analysis and recommendations relating to revenue from contracts with customers within the scope of AASB 15 and the accounting for grants, donations and bequests to the May 2022 Board meeting.

Background and reasons for bringing this paper to the Board

3 At its 4 August 2021 meeting, the Board decided to consider the classification, recognition and measurement requirements concerning revenue and other income of NFP private sector entities at a future meeting. Stakeholders' feedback discussing the challenges are mainly concerned with recognition and measurement requirements rather than disclosure, particularly given the Board's initiative on disclosure simplification effected through the issue of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

4 Accounting for revenue and income was identified as one of the key areas for simplification based on the feedback from the preliminary outreach summarised in Agenda Paper 5.1 for the Board's 16-17 September 2020 meeting, and the Board agreed to include this topic as one of the key topics in the discussion paper (DP) at its 20-21 April 2021 meeting.

5 Feedback from Panel members at the 19 January 2022 Panel meeting provided mixed views on whether the initial measurement of donated or granted non-financial assets should be simplified.

6 At its 23-24 February 2022 meeting, the Board decided to discuss the initial measurement of assets acquired at significantly less than fair value at the Board's April 2022 meeting. The Board also decided that the subsequent measurement of investment property and property, plant and equipment (PPE) should continue to apply fair value in accordance with AASB 13 *Fair Value Measurement* where an entity elects to revalue their investment property or PPE (refer to Action Alert 212). As such, staff

consider that this would inform the staff analysis and recommendation for the income measurement of the initial measurement of assets acquired for significantly less than fair value.

7 Staff have not addressed related disclosures of donated/granted non-financial assets and inventory in any detail in this paper. Staff suggest disclosure requirements are contingent on the Board's preliminary views on possible Tier 3 requirements for initial measurement of donated or granted non-financial assets and inventory.

Structure of this paper

8 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 (paragraph 9 – 10);

(b) Current requirements under Australian Accounting Standards (paragraphs 11 – 14);

(c) Australian legislative requirements (paragraph 15);

(d) Summary of approaches taken by selected other jurisdictions (paragraph 16);

(e) Feedback from Australian stakeholders (paragraphs 17);

(f) Findings from academic research and other literature (paragraphs 18 – 19);

(g) Findings from staff review of a sample of financial statements (paragraphs 20 – 21);

Considering options for simplifications and staff analysis

(h) Options for simplification (paragraphs 22 – 27);

(i) Evaluation of options against Tier 3 principles (paragraph 28);

(j) Staff recommendation (paragraphs 29 – 30); and

(k) Staff analysis and recommendation - initial recognition and measurement of volunteer services (paragraphs 31 – 34)

Summary of staff recommendation

9 Staff recommend that the Tier 3 reporting requirements for initial measurement of assets acquired for significantly less than fair value should require:

(a) for non-financial assets with useful lives of 12 months or more and the entity intends to hold the asset for 12 months or more, to be measured at fair value;

(b) inventories with useful lives of 12 months or more, to be measured at current replacement cost. An entity may elect to recognise the item based on an assessment of materiality at either the individual item level or at an aggregated portfolio level; and

(c) non-financial assets and inventories with useful lives of less than 12 months will not be recognised.

10 Staff do not have a preferred view concerning simplification for initial measurement of volunteer services not to require recognition of any volunteer services, rather than providing an accounting policy choice for entities to elect to recognise volunteer services (or a class thereof) at fair value, provided that the fair value of those services can be measured reliably.

Current requirements under Australian Accounting Standards

11 NFP private sector reporting entities are required to comply with Australian Accounting Standards such as AASB 1058 *Income of Not-for-Profit Entities* when accounting for the initial measurement of assets acquired for significantly less than fair value (i.e. donated or granted assets, or where assets are sold to NFP entity that is significantly less than fair value) and accounting for volunteer services.

12 Given the scope and focus of this paper, a high-level summary of AASB 1058 requirements only has been provided below in paragraphs 13 – 14.

AASB 1058 Income of Not-for-Profit Entities – a high-level summary

13 The current requirements under AASB 1058 for initial recognition of an asset or volunteer services is summarised in the table below. An entity is required to apply the requirements of AASB 102 *Inventories* to recognise an asset arising from a transaction from applying AASB 1058.

PPE, Investment Property, Intangible assets	**Inventory**	**Volunteer services**
Recognise at fair value where an asset is acquired for significantly less than fair value.[1]	Recognise at current replacement cost (rather than fair value). Apply materiality on an aggregate or portfolio basis.	Elect to recognise at fair value (if it can be reliably measured).[2] Otherwise, an entity can choose not to recognise volunteer services. Entities are encouraged but not required to disclose significant reliance on volunteer services. Entities may assess whether the information is material and should be disclosed in the financial statements.

14 Where an NFP entity initially recognises donations or grants of non-financial assets, the entity recognises income immediately, except to the extent that the donation or grant is part of the consideration received in return for incurring a performance obligation or other liability (contributions by owners are ignored in this paper, because they would seldom arise for NFP private sector entities, except on establishment, and owners cannot have a financial interest in an NFP entity and do not affect the issues and options considered in this paper).

Australian legislative requirements

15 As referenced in Agenda Paper 11.2 and 11.4 presented at the 23-24 February 2022 AASB Board meeting, staff's review of the Australian legislation governing NFP entities noted that changes to revenue and other income accounting may impact on the determination of the size thresholds for financial reporting requirements, and may have an impact on whether an entity qualifies for a particular tier.

1 The Australian Implementation Guidance in AASB 116 *Property, Plant and Equipment* provides guidance in relation to heritage and cultural assets acquired at no cost would only be recognised where those heritage and cultural assets can be reliably measured.

2 Not-for-profit public sector entities are required to recognise assets or expenses for volunteer services received if the fair value of those services can be measured reliably and the entity would have purchased those services if they had not been donated.

Summary of approaches taken by selected other jurisdictions

16 When considering this topic, staff had regard to the requirements that apply to smaller NFP entities of other jurisdictions.[3] The summary is extracted from Agenda Paper 11.4.1 of the February 2022 Board meeting as follows:

Income type/Jurisdiction	Donated goods/ inventory	Volunteer services
NZ PBE Tier 3	Significant donated assets with useful lives of 12 months or more are measured at readily obtainable current values, such as rateable or government valuations.[4] Significant donated assets that are difficult to value (e.g. intangible assets, highly specialised assets and heritage assets) and other assets with useful life less than 12 months are not recognised. Only significant donated inventory with useful lives of 12 months or more are recognised. If inventory is not recorded as an asset, there is no expense to record on sale or distribution.	Donated volunteer services are not recognised
UK Charities SORP	Donated vehicles, plant, furniture and inventory to be measured at fair value when their fair value amount exceeds the threshold for capitalisation set by the charity's accounting policy.[5] If there is no evidence of fair value for an equivalent item, the value may be derived from the cost of the item to the donor or, for goods expected to be sold, the estimated resale value (based on historical data) after deducting the cost to sell goods. If it is impractical to estimate the resale value (e.g. due to the volume of low-value items received or the absence of detailed stock control systems or records), income will be recognised when sold.	Donated volunteer services and facilities measured at the value of the gift that the charity would pay in the open market for an alternative item providing equivalent benefit to the charity, rather than fair value.

3 Staff considered the components of financial statements from the following selected jurisdictions: International United Kingdom – 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 SMEFRF & SME-FRS), and United States of America – Not-for-profit Entities (Topic 958) (US ASC NFP 958). Further information is provided in the supporting documents folder in Agenda paper 11.4.1.

4 The NZASB Board is proposing in their upcoming Exposure Draft of the NZ Tier 3 Standards to strengthen the requirements for donated assets to explicitly state that donated assets shall not be recorded unless they are significant. For subsequent measurement of PPE, entities which elect to revalue PPE should be required to either have a valuation by a suitably qualified independent valuer or measured based on council rateable valuations.

5 Charities SORP does not provide further guidance for what the threshold for capitalisation should be.

Income type/Jurisdiction	Donated goods/ inventory	Volunteer services
Singapore	Donated tangible fixed assets measured at a sufficiently reliable estimate of the amount that the charity estimates it would pay in the open market for an equivalent item. If the amount cannot be measured reliably, disclosure of that fact is required in financial statements. Where it is not practical to estimate the value, donations (e.g. inventory) would be recognised and measured in the financial period at the amount which the donation in kind is sold.	Not explicitly stated, but donations in kind are estimated at the amount a charity would have to pay in the open market for an equivalent item.
Canada	A contributed or purchased tangible capital asset at significantly below fair value is measured at cost, which is deemed fair value plus all costs directly attributable to the acquisition of the tangible capital asset. Where fair value cannot be reasonably determined, it is recorded at nominal value.	An organisation can choose to recognise contributed materials and services normally purchased only when fair value can be reasonably estimated. Fair value is determined in relation to the purchase of similar materials and services.
US ASC NFP 958	Contributions of non-cash assets received with future economic benefit or service potential are measured at fair value plus cost incurred by the entity to place those assets in use. However, where there is significant uncertainty on the value of a donated asset (e.g. gift of clothing or furniture that have no value to the entity), these are not recognised. For example, this could include an item that has highly restricted alternative use or contributions of flora, fauna or photographs of historical nature NFP entities can choose to recognise (capitalise) works of art or historical treasures that are part of a collection.	Contribution of services is recognised if services received create or enhance non-financial assets or are specialised skills provided by individuals (e.g. accountants or architects) that would typically need to be purchased if not provided or donated. Contributed services are measured at fair value, which is the amount the NFP entity would have been charged for the individual's services in similar circumstances, even if the NFP entity would not otherwise be able to afford the services.
IFRS for SME / UK FRS 102	Require grants to be measured at the fair value of the asset received or receivable.	Not explicitly specified
HK SME-FRF and SME-FRS	Government grants related to assets should be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset Most non-financial assets are initially recognised at historical cost (e.g. PPE, inventories) unless the Standard permits or requires measurement at fair value (e.g. investment property, agricultural assets).	Not explicitly specified.

Feedback from Australian stakeholders

17 AASB NFP Project Advisory Panel meetings were held on 19 January 2022[6] and 8 March 2022. Panel members provided the following initial feedback concerning possible Tier 3 accounting simplifications for revenue and income recognition:

(a) Some Panel members raised concerns regarding the requirement to measure the cost of donated or granted non-financial assets at fair value. A Panel member mentioned that NFP entities generally adopt the cost approach (i.e. current replacement cost). Similarly, another Panel member confirmed that non-financial assets held by NFP entities are carried at cost at the March 2022 meeting. Some Panel members have indicated that determining the fair value of specialised assets (including buildings or other assets with heritage features) and buildings in an outer suburb or remote location would give rise to undue cost. One Panel member commented that the high cost of obtaining valuations of fair value might deter some Tier 3 NFP entities from accepting the donation or grant because that cost can exceed the value of the donation or grant. Some Panel members suggested providing the same accounting policy choice for donated or granted assets (such as PPE) as applying to volunteer services. However, some Panel members also considered that all donated or granted non-financial assets should continue to be measured at fair value to ensure those assets are captured on the balance sheet.

(b) Some Panel members supported mandatory measurement of a donated or granted non-financial asset at fair value on initial recognition only if the asset's fair value can be measured using inputs at Level 1 of the fair value hierarchy. This view is held on the basis that the cost of obtaining a reliable measure of the asset's fair value should be minimal.

(c) Some Panel members mentioned in particular the difficulties that would arise in measuring the fair value of an NFP entity lessee's right of use assets arising under a concessionary lease (while acknowledging the Board is currently proposing its intention to retain the accounting policy to initially measure right-of-use assets arising under concessionary leases at cost on an ongoing basis, to provide certainty to NFP private sector lessees).

Findings from academic research and other literature

18 As noted in Agenda Paper 11.2 presented at the 23-24 February 2022 AASB Board meeting, academic research indicates some concerns from preparers and auditors regarding the complexity and cost associated with the valuation of donated assets. In particular, this concern was highlighted for the valuation of 'specific purpose assets' such as churches or nature reserves.

19 The IFR4NPO Consultation Paper[7] identified that users, such as donors and other funders, may be interested in understanding the financial position and how effective the assets they have contributed towards have been used. However, the paper also identified challenges with the measurement of non-financial assets within the NFP private sector, specifically the diverse assets used and restrictions in the use of assets and challenges for NFP entities to measure and record the value of donated assets reliably.

Findings from staff review of a sample of financial statements

20 Staff reviewed a random non-representative sample (20) of the 2020 financial statements of charities with reported revenue between $500,000 and $3 million to gain an understanding of the types of non-

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6 Refer Agenda paper 11.6 *Not-for-Profit Project Advisory Panel minutes from 19 January 2022 meeting* from the 23-24 February 2022 AASB meeting.

7 In January 2021, The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the [IFR4NPO Consultation Paper].

financial assets and whether those assets were donated/granted. The financial statements reviewed included both general purpose financial statements and special purpose financial statements.

21 From the financial statements reviewed:

(a) 18 of the 20 entities disclosed non-financial assets. The most common non-financial assets disclosed were:

- 16 entities disclosed PPE, including five entities disclosing an accounting policy for donated assets measured at fair value on initial recognition;
- three entities disclosed inventory, including one entity disclosing an accounting policy for donated items and inventory held for distribution, measured at current replacement cost for items that are new or where the retail price is objectively determinable;
- five entities disclosed right of use assets; and
- four entities disclosed other intangible assets;

(b) no entities recognised volunteer services; and

(c) the majority of PPE consists of motor vehicles, office furniture, land and buildings.

From staff's review, for entities that received donated/granted non-financial assets, those assets are initially measured in accordance with requirements within AASB 1058 and AASB 102.

Options for simplification

22 With reference to the flowchart in Appendix A of Agenda Paper 4.1 for this meeting on approaches to simplification, staff have identified three options for Tier 3 reporting requirements on the accounting for initial measurement of assets acquired for significantly less than fair value (paragraph 24) and volunteer services (paragraph 31). The staff analysis considers current practice in Australia and international jurisdictions, feedback received from stakeholders, and the findings summarised in paragraphs 11 to 21 above. In the main, the options simplify the initial measurement of non-financial assets and inventory that are acquired at significantly below fair value rather than financial assets. Staff will address the initial measurement of financial assets at a future meeting.

23 Staff have summarised the options below and note that the language used in this paper is based on underlying sources and would be articulated using simpler and more plain English terms for the Tier 3 requirements.

The initial measurement of assets acquired for significantly less than fair value

24 Staff have analysed the following possible Tier 3 reporting requirements to measure assets and inventory acquired for significantly less than fair value on initial recognition in **Table 1** below. Staff have analysed initial measurement of inventory together with non-financial assets as staff did not receive feedback from stakeholders regarding initial measurement of donated inventory as an area of focus during preliminary outreach. Options A and B require the fair value to be applied in accordance with AASB 13, while Option C proposes an alternative measurement basis to fair value:

(a) **Option A**: Apply unchanged the requirements of the Australian Tier 2 requirements to measure those non-financial assets at fair value. Donated inventory to be measured at current replacement cost with the practical expedient for initial measurement of donated inventory;

(b) **Option B**: Require non-financial assets with useful lives of 12 months or more and where the entity intends to hold the non-financial asset beyond 12 months to be measured at fair value. Donated inventories with useful lives of 12 months or more to be measured at current replacement cost with the practical expedient for initial measurement of donated inventory; and

(c) **Option C**: Require non-financial assets and inventory to be measured either at cost or fair value (current replacement cost for inventory).

Other possible options for simplification

25 Staff observe that there are other possible simplification alternatives based on the policies adopted by UK Charities SORP and Canada ASNFPO that the Board could consider, including providing an exemption from fair value measurement 'where it is impractical to measure fair value reliably' or an option to value goods expected to be sold at their estimated resale value. Considering the incremental value of other possible approaches for the staff analysis and recommendations, staff have not further analysed other possible alternatives for the following reasons:

(a) the exemption from fair value measurement 'where it is impractical to measure fair value reliably' would appear to be compassed by the more specific exemptions in Option B (i.e. no requirement to fair value where the non-financial asset has a useful life of 12 months or less or the entity intends to sell the assets within 12 months);

(b) the policy adopted by both UK Charities SORP and Canada ASNFPO (i.e. where there is no direct evidence of fair value for an equivalent item, the cost of the item to the donor may be used) might require information that is difficult and costly to obtain, and therefore might not achieve an appropriate balance of costs and benefits; and

(c) the Board decided to continue to require entities to apply fair value in accordance with AASB 13 rather than to allow entities to use other measurement bases due to possible assurance implications, as discussed at the February 2022 Board meeting (refer to Action Alert 212).

26 Staff have also considered other preliminary options proposed to Panel members at the January 2022 NFP PAP meeting to only require non-financial assets to be measured at fair value (1) where Level 1 inputs are available, and (2) allowing entities to estimate the current value of a non-financial asset using readily available market selling price of a similar asset. Staff have not considered these options further for the following reasons:

(a) while some Panel members supported requiring non-financial assets to be measured at fair value where level 1 inputs are available (see paragraph 17(b)), staff considered that it is highly unlikely any non-financial assets would have Level 1 inputs available for measuring the asset's fair value. As such, while this may appear to be a plausible option for financial assets (i.e. listed investments), allowing the option to carry over to non-financial assets may result in the loss of useful information in Tier 3 general purpose financial statements where these assets are never recognised; and

(b) the Board rejected the option to allow entities to estimate the current value of non-financial assets using readily available market selling price of a similar asset at its 23-24 February 2022 Board meeting for subsequent measurement of investment property and PPE where an entity elects to revalue their assets, due to possible assurance implications.

27 Staff also observed another alternative approach is to stipulate an 'undue cost or effort' exemption based on the policy adopted by *IFRS for SMEs* for subsequent measurement of investment property as a 'practical out' from measuring donated/granted non-financial assets where there is undue cost or effort. However, staff did not further analyse this exemption for the following reasons:

(a) preparers may inconsistently assess the notion of undue cost or effort to 'get out' from applying the measurement basis for measuring donated/granted non-financial assets as discussed in staff analysis on subsequent measurement of investment property presented at the February 2022 Board meeting;

(b) 'undue cost or effort' will need to be defined, and guidance to be developed to specify the circumstance in which the measurement basis must be applied. This may also not simplify the measurement criteria as an assessment based on management's assessment of undue cost or effort is too subjective to be applied consistently by different entities and may increase the complexity to applying the accounting requirements; and

(c) the Board previously rejected this notion when deciding the options for the treatment of changes in accounting policies at its August 2020 Board meeting.[8]

8 Refer to minutes of the 182nd meeting of the AASB Board meeting

Table 1 Summary of possible options and analysis for Tier 3 – initial measurement of assets acquired at significantly below fair value

Possible options	Jurisdictions adopting similar approaches (and pronouncements)	Support for the approach	Arguments against the approach
Option A: **Australian Tier 2 requirements to measure donated/granted non-financial assets at fair value. Donated inventory measured at current replacement cost, including practical expedient to allow entities to elect to recognise each item of donated inventory on an assessment of materiality either individually or at an aggregate or portfolio level, hereon referred to as practical expedient.**	• Current Tier 2 requirements • IFRS for SMEs • UK FRS 102 • US NFP 958 (except where there is high uncertainty about the value of those assets that are of historical in nature)	• The non-financial assets held by Tier 3-sized entities are likely to be PPE, such as motor vehicles, office equipment or land/buildings. As such, fair value should not be difficult to obtain. • Remains transaction neutral and allows easier transition for preparers and auditors to move between other tiers of reporting. • Enables useful information to be provided to users of Tier 3 general purpose financial statements as all assets must be fair valued, which provides beneficial information for assessing the NFP entity's invested capacity to deliver services, the value of financial support provided to such an entity and the number of resources consumed in rendering services to beneficiaries. • Consistent with the Board's decision for subsequent measurement of investment property and PPE where applying the fair value model remains unchanged.	• There is no exception to measuring fair value, which can be costly and excessively onerous, especially for smaller NFP entities who will likely engage a valuer to fair value assets such as donated land and/or buildings.
Option B: **Requiring donated/granted non-financial assets and donated inventories with useful lives of 12 months or more and where the entity intends to hold those assets for more than 12 months to be measured at fair value (current replacement cost for inventories with practical expedient in Option A).**	• No jurisdiction identified. However, this option is similar to NZ Tier 3 which requires initial measurement for significant donated assets with useful lives of 12 months or more to be measured at readily obtainable current values such as rateable or	• Provides simplification of measurement criteria by only requiring measurement of donated non-financial assets whose useful lives of 12 months or more as these assets are likely more significant to the entity. This is likely only to capture those assets such as land/buildings or motor vehicles that will likely be held for longer-term by the entity. It will simplify donated inventory as the useful life will not likely be beyond 12 months, as such entities will not be required to recognise and measure donated inventory. • Remains largely transaction neutral for donated/granted non-financial assets with useful lives of 12 months or more and allow an easier transition for preparers and auditors to move between other tiers of reporting.	• May add another level of complexity, especially for smaller entities, to assess whether an asset has useful life of 12 months or more. • Inconsistency with other Tier 1 or Tier 2 NFP entities that are required to initially measure all donated/granted non-financial assets at fair value. • NFP entities may not receive many donated/granted non-financial assets with useful lives of 12 months or more. Hence, incremental cost savings may be minimal. • Donated inventories such as donated clothing/food are not likely to be recognised as it is rare that their useful lives would exceed 12 months or more.

Possible options	Jurisdictions adopting similar approaches (and pronouncements)	Support for the approach	Arguments against the approach
	government value for land/buildings.	• Consistent with the Board's decision for subsequent measurement of investment property and PPE where applying the fair value model remains unchanged.	
Option C: Requiring donated/granted non-financial assets and donated inventories to be measured at cost or fair value (current replacement cost for donated inventory) with appropriate disclosure.	No jurisdiction identified. However, this is similar to measuring right-of-use assets arising under concessionary leases at cost.	• Option C provides a choice to allow management to determine a measurement basis that meets the needs of their users. It also allows entities to measure non-financial assets or inventory at cost which is the simplest to apply as an NFP entity would be aware of the amount to acquire those assets (i.e. either at no or nominal consideration). • This Option acknowledges that smaller NFP entities may have difficulties applying the principles in AASB 13 in determining fair value for donated/granted non-financial assets and inventories. • Donated/granted non-financial assets/inventories will likely be a typical transaction for NPF entities; as such, Option C is expected to provide the most significant cost savings.	• Requiring donated/granted non-financial assets and inventory to be measured at cost will understate the entity's financial position and previous research indicates that users don't always read disclosure notes. • Where the entity chooses the cost option, the non-recognition of donated/granted non-financial assets and inventory may represent a loss of important information to users that may not be fully alleviated through disclosures, especially if users are interested in understanding the financial position and how effectively the NFP entity has used the assets that they have contributed to. • Will impact comparability within Tier 3 and against entities in different reporting tiers as this requirement would be unique to Tier 3. • A Tier 3 subsidiary may be required to identify the AASB 1058 accounting for consolidation, resulting in a 'double cost' of preparation. • This may lead to confusion when applying size threshold test for determining an entity's financial reporting obligations. It may not be clear whether an entity determines asset values by reference to AASB 1058 or Tier 3 reporting requirements that do not require the recognition of donated non-financial assets/inventory on the balance sheet. Additional costs may be incurred to amend legislation for clarity. • Having different accounting requirements makes it more difficult for auditors and preparers to move between different sized entities.

Evaluation of options against Tier 3 principles

28 The options above have been assessed for their alignment against the Tier 3 principles outlined in Appendix A of agenda paper 4.1 to this meeting. Staff consider that Option A would align the least to the Tier 3 principles given there are no simplifications to be introduced while Options B and C allows a different measurement basis that broadly aligns to the principles with staff noting the following considerations in particular:

Table 2: Applying Tier 3 Principles to options identified

Principles	**Staff assessment**
The development of Tier 3 reporting requirements is subject to the [AASB Not-for-profit Standard-Setting Framework]() *Tier 3 financial statements are general purpose financial statements. As such, Tier 3 financial statements provide useful information to users of financial statements.*	Options B and C may not provide useful information because the exemptions provided in these options enable entities to not fair value donated/granted non-financial assets or require recognition/measurement of these assets on the statement of financial position other than disclosures. Consequently, the usefulness and relevance of the information provided in the financial statements would suffer.
Consistency with the accounting principles specified in 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 *Accounting requirements do not impose disproportionate costs to preparers compared to benefits of the information.*	Option A is most consistent with the accounting principles specified in Tier 2 requirements. However, requiring all donated/granted non-financial assets to be measured at fair value may impose disproportionate cost to preparers when compared to the benefits of applying fair value in measuring all donated/granted non-financial assets for Tier 3 entities. Options B and C allow entities a different measurement basis and some form of exemption from requiring entities to fair value those assets which is warranted since Tier 3 requirements are developed as a proportionate response.
Where possible, leverage the information management uses to make decisions about the entity's operations. The ability to leverage the information management uses is made within the context of the NFP conceptual framework, user needs and cost/benefit considerations, and the aim for comparability within Tier 3 reporting requirements	Options B and Option C would result in the non-recognition, or recognition at nil value, on the balance sheet of a wider range of donated/granted non-financial assets acquired without a cost to the Tier 3 entity because of the exemptions provided to fair value those assets. Accordingly, adopting any of those options would tend to result in the reporting of information consistent with the aims of the entity's management.

Staff Recommendation

29 On balance, staff recommend Option B, that the proposed Tier 3 reporting requirements should require initial measurement of donated or granted non-financial assets acquired at significantly below fair value with useful lives of 12 months or more and where the entity intends to hold those assets for more than 12 months to be measured at fair value. Donated inventory with a useful life of more than 12 months is required to be initially measured at the current replacement cost. The entity may elect to recognise the item based on an assessment of the materiality either of the individual item or of inventories at an aggregated or portfolio level. Staff consider that this is an

appropriate proportionate response in recognition of the smaller size of Tier 3 entities and the fact that their resource constraints would make fair value measurement of all such assets likely to be unduly costly. Staff were persuaded to their view by the following considerations:

(a) it would respond to feedback from stakeholders that the cost of undertaking fair value measurements for all non-financial assets donated or granted to a Tier 3 entity would be disproportionate to the resulting benefits to users of its financial statements. As such, only requiring initial measurement of donated or granted non-financial assets and inventory with useful lives of more than 12 months to continue to be measured at fair value for non-financial assets and current replacement cost for inventory would ensure relevant information is provided to donors of those assets;

(b) it recognises that NFP entities that intend to sell the donated or granted non-financial assets or inventory within 12 months will be exempt from the requirement to initially measure those assets at fair value;

(c) this is consistent with the Board's decision at its February 23-24 2022 Board meeting in relation to subsequent measurement of investment property and PPE for entities that elect to revalue their assets, to continue to apply fair value in accordance with AASB 13;

(d) unlike the subsequent measurement of investment property and PPE, an entity currently has no accounting policy choice to measure an asset acquired at significantly below fair value other than at fair value in accordance with AASB 13. As such, the simplification option will have a broader impact for smaller entities that are expected to benefit from the simplification proposal; and

(e) while staff recognises that it is highly unlikely that inventories will have an expected useful life of more than 12 months, as such, it will result in the non-recognition of a majority of donated inventories. However, staff consider not requiring the recognition of those inventories will provide incremental cost savings that will outweigh the benefits, especially for smaller NFP entities that are less resourced to adequately apply the current accounting requirements, and having regard to the 'net' financial statement impact from the non-recognition is unlikely to be substantial.

30 While disclosures are subject to discussion at future Board meetings, staff consider that appropriate disclosures of general information about any unrecognised donated or granted assets significant to the NFP entity's operation will be required to be disclosed in the entity's financial statements to compliment the relief for Tier 3 NFP entities from measuring some non-financial assets that were acquired for significantly below fair value on initial recognition.

Question to Board members

Q1 Do Board members support, for the purpose of the DP, the staff recommendation that Tier 3 accounting requirements for measurement of assets acquired at significantly below fair value on initial recognition should require (under Option B for each):

a. for non-financial assets with useful lives of 12 months or more and where the entity intends to hold those assets for 12 months or more, be measured at fair value;

b. for inventories with useful lives of 12 months or more, be measured at current replacement cost. An entity may elect to recognise the item based on an assessment of the materiality either of the individual item or of inventories at an aggregate or portfolio level; and

c. non-financial assets and inventories with useful lives of 12 months or less are not recognised.

If not, what approach to Board members support?

Staff analysis and recommendation –initial recognition and measurement of volunteer services

31 Regarding volunteer services, staff have identified the following options:

(a) applying the Tier 2 requirements, which is to provide a free choice to NFP private sector entities to elect to recognise volunteer services (or a class thereof) at fair value, provided that the fair value of those services can be measured reliably (Tier 2 option);

(b) applying the UK Charities SORP or Singapore CAS requirements for volunteer services (other than services of general volunteers) to be recognised if they would otherwise have been purchased and measured at the value of the gift to the entity (UK Charities SORP option); or

(c) applying the NZ Tier 3 requirement for public benefit entities, which is not to recognise volunteer services (NZ Tier 3 option).

32 Staff did not consider further the UK Charities SORP option as the requirements were more onerous than the current requirements and do not align with the Tier 3 developing principles, as well as challenges in valuation of volunteer services, especially for smaller entities. However, staff have mixed views and as such, did not form a view about introducing the simplification not to recognise volunteer services (i.e. NZ Tier 3 option). The staff who support the simplification not to recognise volunteer services based their views on the following reasons:

(a) it simplifies the recognition and measurement criteria by not requiring volunteer services to be recognised. By removing the accounting policy choice to recognise volunteer services, it will also improve consistency of information provided amongst Tier 3-sized entities; and

(b) anecdotally and from our staff review of the sample financial statements, it is unlikely Tier 3 NFP entities currently recognise volunteer services.

33 The staff who do not support introducing this simplification, as such, retaining the current Tier 2 requirements to provide a free choice for Tier 3 entities to measure volunteer services at fair value where an entity can measure those services reliably, based their views on the following reasons:

(a) while the NZ Tier 3 option may provide consistency among Tier 3 entities by not requiring the recognition of volunteer services and is the least costly and simplest approach, it prohibits the recognition of volunteer services where the entity considers providing such information is useful to their users; and

(b) it maintains consistency with Tier 1 and Tier 2 reporting requirements.

34 Staff note that the current Tier 2 requirements encourage, but do not require, disclosures of volunteer services an NFP entity receives that are not recognised. Staff considered one possible sub-option is to require qualitative disclosures where an NFP entity is significantly reliant on volunteer services. This information is likely already reported by NFP charities to the Australian Charities and Not-for-profits Commission.[9] However, staff did not explore this option further because requiring mandatory disclosures will result in higher reporting requirements than current Tier 1 and Tier 2 accounting requirements, and charities only represent one-third of the NFP private sector entities.

Question to Board members
Q2 Staff have not formed a preferred staff view whether to introduce a simplification option for Tier 3 reporting requirements not to recognise any volunteer services. However, do Board members

9 NFP charities are required to provide an estimate of the number of volunteers in the annual information statement submitted to the Australian Charities and Not-for-profits Commission.

support, for the purpose of the DP, including a preliminary view for Tier 3 reporting requirements to:

a) not recognise volunteer services, that is NZ Tier 3 option; or

b) to retain current Tier 2 requirements, that is to provide a free choice to NFP private sector entities to elect to recognise volunteer services (or a class thereof) at fair value, provided that the fair value of those services can be measured reliably.

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