



THE UNIVERSITY OF  
WESTERN AUSTRALIA

Business School

GSM

**DEFINING A NOT-FOR-PROFIT ENTITY IN AUSTRALIA –  
THE ACCOUNTING PERSPECTIVE**

Report for CPA Australia Centre of Excellence for Financial Reporting and Governance

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## **1 INTRODUCTION**

Australian equivalents of the International Financial Reporting Standards (AIFRS) have been developed by the Australian Accounting Standards Board (AASB) on a sector neutral basis, namely, one set of standards for all types of entities and all types of transactions.

The AIFRS do, however, include some provisions specific to Not-for-profit (NFP) entities. There has also been some discussion over the need for additional guidance for this type of entity, an important part of which is a clear ability to separately identify For Profit and NFP entities. The AIFRS contain a definition of a NFP entity, however there has been some debate over whether this definition captures all the entities it is intended to capture.

In August and September 2006 a survey of a sample of CPA members was conducted to seek their views on the definition of a NFP entity, and what they consider to be the essential characteristics of such an entity. Members of CPA Australia were invited to participate in this research because they are considered to be experienced users of accounting standards. This survey is part of ongoing research at the University of Western Australia supported by the CPA Australia Centre of Excellence For Financial Reporting And Governance and the Accounting and Finance Association of Australia and New Zealand. This paper presents the findings from the survey.

## **2 BACKGROUND TO RESEARCH PROJECT**

In late 2003 a research project to examine financial reporting for NFP entities in Australia was initiated at the Graduate School of Management at the University of Western Australia (UWA). The early aim of the project was to firstly identify the needs of users of NFP financial reports and secondly identify the extent to which those needs were being met.

The first stage of that project was a comparative analysis of the regulatory environments of Australia, New Zealand, Canada, the United States of America and the United Kingdom. This analysis identified a number of types of information that other regulatory environments consider useful to users of NFP financial reports that are not currently included in the guidance provided by the AIFRS.

An additional and significant finding of this analysis was that there are differences between the definition of a NFP entity included in the AIFRS and the guidance from other regulatory environments. Support was found for the notion that the definition in the AIFRS is difficult to operationalise and could potentially result in similar entities being defined as NFP in some circumstances while being defined as For Profit in others.

The survey of CPA members constitutes Stage Two of the UWA research project.

## **3 VIEWS ON THE CRITERIA THAT DEFINE A NFP ENTITY**

In order to develop a set of criteria that had the potential to be useful in defining an entity as NFP, research was undertaken to identify definitions used in Australian and other accounting regulatory environments as well as definitions from non accounting contexts. A summary of these is provided in the following subsections.

### **3.1 THE AUSTRALIAN STANDARD SETTERS VIEW**

In Australia, the AIFRS contain the following definition of a NFP entity:

A not-for-profit entity is an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls (AASB 114 para AUS8.1).

### **3.2 OTHER AUSTRALIAN VIEWS**

In response to the introduction of the AIFRS definition of a NFP entity, the Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC) developed nine criteria to assist users of the standards in assessing whether entities are For Profit or NFP. The criteria are classified into three groups:

- Primary Criteria that provide conclusive support either from a legal interpretation of the definition or substantive support from the application of the criteria
- Secondary Criteria that provide varying degrees of support for an entity's in-substance classification as being either For Profit or NFP, but which is not conclusive in isolation
- Rejected Criteria that do not provide a basis for discriminating between a For Profit and a NFP entity (HOTARAC 2005)

The Australasian Council of Auditors General Advisory Committee (AAC) prepared a similar guidance paper based on the HOTARAC report. This guidance is intended to assist Auditors General and their staff when assessing whether public sector entities are For Profit or NFP. In this guidance, the criteria were classified into two groups:

- Effective criteria for identification as a NFP entity. These criteria could be either conclusive in isolation, provide a strong but rebuttable presumption, or provide support but not be conclusive in isolation
- Rejected criteria that did not provide a basis for identification as a NFP entity (AAC 2005)

Two other definitions are included in this analysis due to their significance to Australian entities. The Australian Taxation Office (ATO) provides a definition of a Non-profit organisation. Under this definition, an entity is NFP when it is not operating for the profit or gain of its individual members. (ATO 2005)

Mark Lyons, a significant contributor to the research into defining Australian non-government NFP entities, uses a set of five criteria developed by the John Hopkins Comparative Nonprofit Sector Project. (Lyons 1998). Under this definition, non-government NFP entities must have a formal structure; be self-governing; be private; be non-profit-distributing; and have some meaningful degree of voluntary involvement.

### **3.3 OTHER VIEWS FROM AROUND THE WORLD**

A number of regulators in other countries provide guidance to preparers of financial reports as to the criteria that define a NFP entity.

In Canada guidance is provided by the Canadian Institute of Chartered Accountants (CICA) through Section 4400 of their Handbook (CICA 1997) in which a "Not-for-Profit Organization" is defined.

In the United States of America, the Financial Accounting Standards Board (FASB) provide guidance on the distinguishing characteristics of “Nonbusiness Organizations” through Statement of Financial Accounting Concepts No. 4 “Objectives of Financial Reporting by Nonbusiness Organizations” (FASB 1980)

In New Zealand the Institute of Chartered Accountants of New Zealand (ICANZ) provide guidance in the form of Exposure Draft No. 101 “When is an Entity a Public Benefit Entity?” (ICANZ 2005). In this guidance a “Public Benefit Entity” is determined by its primary objective, with key and supporting indicators provided to assist in the determination where the objectives of the entity are not clearly stated.

In addition to the views developed by regulators, a number of commentators have presented their views on the issues of defining the sector. For example Anthony (1978) identifies several criteria for deciding how to distinguish between business and non business organisations. The first criterion is that the characteristics separating the two types of organisations should be related to accounting concepts. The second criterion is that the distinction should be operational.

Anthony also discusses the need for the ability to separately identify For Profit and NFP entities if sector specific standards are to exist:

*“Although to some people the problem of drawing a line between business organizations and other organizations appears to be of only academic interest, such a line has a fundamental practical purpose. If two sets of concepts exist, a given organization must have some way of knowing which set governs its accounting.”*  
 (Anthony 1978, pp 159)

**3.4 SUMMARY**

From the review of the literature a large set of criteria were identified as possibilities when defining a NFP entity. This larger set was distilled down to the 15 criteria that were included in the survey. These criteria are shown in Table 1.

Some criteria were excluded as it was felt that they were similar to others. For example the following AAC and HOTARAC criterion was excluded as it was felt to be similar to other profit related criteria:

- Do the financial targets of the entity reflect profit concepts or an objective to be commercially successful

The Lyons (1998) definition - which is defining non government NFP entities - contains the criterion that the entity is private. This was excluded from the final set of criteria.

**Table 1 – Criteria included in the survey**

Source(s)	Criteria
AIFRS, ICANZ, Anthony	It does not have as its principal objective the generation of profit
Lyons	It is organised e.g. it has regular meetings, procedural rules, some form of organisational permanence

Source(s)	Criteria
Lyons, CICA, FASB, AAC, HOTARAC, ATO, ICANZ, Anthony	It may not distribute surpluses
Lyons	It is able to control its own activities
Lyons	It has some level of voluntary input into its operations e.g. volunteers
AAC, HOTARAC, ICANZ	It does not have in its legislation, associated regulations or constitution, the objective of the generation of profit
AAC, HOTARAC	It is funded from the government budget to deliver, as its principal activity, goods and/or services for no or nominal cost to the beneficiary
AAC, HOTARAC	It is not self-funding in the longer-term
AAC, HOTARAC	It does not pay income tax or income tax equivalents
AAC, HOTARAC	It provides goods or services in a market where a regulator sets prices (Note that this criteria was considered but rejected by the AAC)
AAC, HOTARAC	It is a monopoly provider (Note that this criteria was considered but rejected by the AAC)
AAC, HOTARAC	It gains the majority of revenue from its trading or provision of services in a fully contestable market (Note that this criteria was considered but rejected by the AAC)
CICA, FASB, Anthony	It is not able to transfer ownership
FASB, Anthony	It receives contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
FASB, CICA	It has operating purposes other than to provide goods or services at a profit

#### 4 METHODOLOGY

This survey was distributed through an email to the sample group inviting them to participate and providing a link to the web site hosting the survey. The sample was selected from the approximately 108,000 members of CPA Australia as at August 2006 was selected. An initial sample of 15,702 included all members with an email contact who indicated that they were employed in the following groups:

- Public Sector (including government business entities) 65.6% of the sample
- Academia 16.9% of the sample

- Not-for-profit Private Sector 17.5% of the sample

Of the emails sent, 251 bounced back making a total of 15,451 in the final sample. The survey was opened on 23<sup>rd</sup> August 2006 and closed on 14<sup>th</sup> September 2006 leaving it open for a total of 23 days.

A total of 860 responses were received, resulting in a response rate of 5.6%. While this rate is low, it is not inconsistent with surveys of this nature. Also, the actual number of respondents is sufficiently large, thus providing very useful insights into this important issue.

## 5 FINDINGS

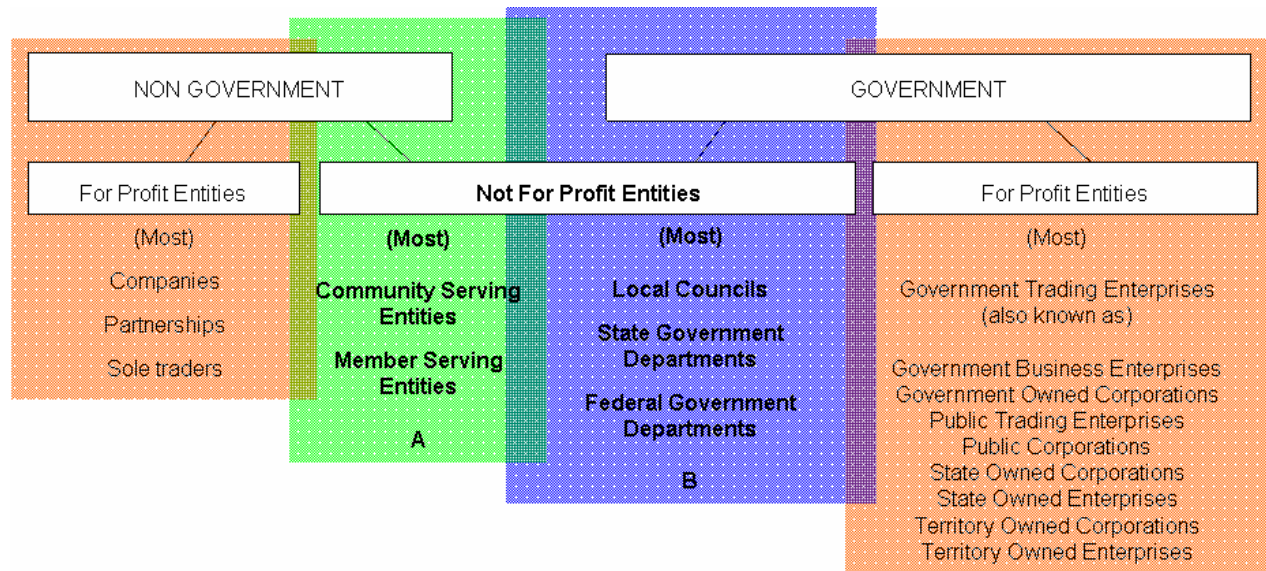
### 5.1 ABOUT THE RESPONDENTS

Data was collected about the respondents than can be used to evaluate the findings. Respondents were asked to:

- respond with respect to a particular type of NFP entity
- identify their area of employment
- identify their years of work experience
- identify their highest level of university qualification

In the introduction to the survey, a diagram was presented to the respondents with a view of where NFP entities are placed within the spectrum of Australian entities:

**Figure 1 – Types of Australian Entities**



The first (compulsory) question answered by respondents was to choose to respond to the survey with respect to one of two groups of NFP entities. Table 2 depicts the number of respondents choosing each category of NFP entity and in total.

**Table 2 - Breakdown of type of entity chosen by respondents**

	<b>Total</b>	<b>Percent (%)</b>
Non Government (Private) Sector Not-For-Profit Entities	497	57.8
Government (Public) Sector Not-For-Profit Entities	363	42.2
Total	860	100.0

Of the 860 respondents, 57.8% chose to respond with respect to Private Sector NFP entities which include most community serving and member serving entities. 42.2% of respondents chose to respond with respect to Public Sector NFP entities which include most local councils and most state and federal government departments.

Tables 2, 3 and 4 present the data collected on other characteristics of the respondents. Total of less than 860 reflect instances of where no response was provided.

**Table 3 – Breakdown by area of employment of respondents**

	<b>Total</b>	<b>Percent (%)</b>
Non Government (Private) Sector	324	37.7
Government (Public) Sector	450	52.4
Retired	6	0.7
Other	79	9.2
Total	859	100.0

**Table 4 – Breakdown by years of work experience of respondents**

	<b>Total</b>	<b>Percent (%)</b>
Less than 2 years	15	1.7
Between 2 and 5 years	59	6.9
Between 6 and 10 years	108	12.6
Between 11 and 15 years	109	12.7
More than 15 years	569	66.1
Total	860	100.0

**Table 5 – Breakdown of highest level of university qualification of respondents**

	<b>Total</b>	<b>Percent %</b>
Undergraduate Degree	538	62.6
Non MBA Masters	79	9.2
MBA	71	8.3
Post Masters Qualification	46	5.4
Other	124	14.5
<b>Total</b>	<b>858</b>	<b>100.0</b>

## **5.2 QUESTIONS ASKED OF RESPONDENTS**

Respondents were asked to indicate the extent to which they agreed or disagreed that each of the 15 criteria listed was useful when determining whether an entity should be defined as NFP.

Where a response of Agree or Strongly Agree was given a further question was posed with respondents asked to indicate whether they considered the criteria to be:

- **PRIMARY** criteria are those which respondents consider are essential components of a definition of a NFP entity. Failing to meet one of these criteria would result in an entity being classified as For Profit.
- **SECONDARY** criteria are those which respondents consider provide support when classifying an entity as NFP but are not conclusive in isolation. Failing to meet one of these criteria would not result in an entity being classified as For Profit

The following two sections present the findings of all responses as well as responses split between the two groups based on the type of entity chosen by the respondents at the start of the survey (Private sector NFP or Public Sector NFP).

## **5.3 ALL RESPONSES**

Tables 6 and 7 present all 860 responses to the survey. The numbers in the columns represent the percentage of respondents choosing that response. Shaded numbers represent the most common response.

**Table 6 – All Respondents – Which criteria are useful**

Criteria (See Section 3.4 for an expanded explanation of these criteria)	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
Principal Objective	<b>58.0</b>	30.5	4.1	6.2	1.2
May Not Distribute Surpluses	<b>47.2</b>	31.7	9.0	9.5	2.6
Operating Purposes Other Than Profit Objective Not In Legislation	<b>46.7</b>	42.7	4.4	4.9	1.3
Does Not Pay Income Tax	<b>38.2</b>	37.0	11.7	10.3	2.8
Control Own Activities	<b>37.7</b>	37.6	10.4	11.1	3.2
Receives Significant NRT	21.9	<b>46.4</b>	16.7	13.1	1.9
Regular Meetings	14.5	<b>44.8</b>	21.1	14.9	4.7
Not Able To Transfer Ownership	30.3	<b>42.5</b>	12.8	9.6	4.8
Voluntary Input	23.7	<b>37.1</b>	20.7	14.8	3.7
Govt. Funded To Deliver At No Cost	13.9	<b>33.6</b>	23.8	21.9	6.8
Trades In Fully Contestable Market	15.9	<b>30.6</b>	15.7	26.2	11.6
Not Self-funding In Longer Term	4.6	21.1	26.8	<b>32.2</b>	15.3
Regulator Sets Prices	10.4	25.2	20.0	<b>33.3</b>	11.1
Monopoly Provider	3.9	15.0	29.4	<b>35.7</b>	16.0
	3.7	9.1	21.6	<b>38.5</b>	27.1

**Table 7 – All Respondents – Primary and secondary criteria**

Criteria (See Section 3.4 for an expanded explanation of these criteria)	Number of Respondents who either Agree or Strongly Agree	Primary Criteria	Secondary Criteria
Operating Purposes Other Than Profit	766	<b>81.3</b>	18.7
Principal Objective	757	<b>86.1</b>	13.9
May Not Distribute Surpluses	673	<b>75.2</b>	24.8
Profit Objective Not In Legislation	640	<b>72.5</b>	27.5
Does Not Pay Income Tax	639	<b>59.3</b>	40.7
Regular Meetings	621	47.5	<b>52.5</b>
Control Own Activities	577	46.6	<b>53.4</b>
Not Able To Transfer Ownership	520	<b>60.0</b>	40.0
Receives Significant NRT	506	48.8	<b>51.2</b>
Voluntary Input	403	30.3	<b>69.7</b>
Govt. Funded To Deliver At No Cost	395	<b>56.5</b>	43.5

Table 6 indicates that for 11 of the 15 criteria, the most common response was agree or strongly agree that the particular criterion was useful when defining a NFP entity. It also shows that the three criteria rejected by the AAC and HOTARAC were also rejected by the respondents as a group with the most common response being to disagree that the criteria were useful. The one criterion that went against the trend was whether the entity was not self-funding in the longer term – the expected response was one of agreement in line with

the AAC and HOTARAC guidelines, however the survey group as a whole most commonly disagreed that this criteria was useful.

Table 7 presents the results of those respondents who either agreed or strongly agreed that the criterion was useful AND responded to the question of whether it was a Primary or Secondary Criteria.

Here we see how the survey respondents as a group ranked the 11 criteria they consider useful when defining a NFP entity. Seven of those criteria were considered essential to the definition of an entity as NFP while four were considered to be supporting and not conclusive in isolation.

Of the seven essential criteria, three relate to the purposes or objective of the entity:

- It has operating purposes other than to provide goods or services at a profit
- It does not have as its principal objective the generation of profit
- It does not have in its legislation etc, the objective of the generation of profit

Two of the criteria relate to the rights of members and/or owners:

- It may not distribute surpluses
- It is not able to transfer ownership

The criterion that the entity does not pay tax or income tax equivalents is also related to the rights of members and/or owners in that the ATO's definition of a NFP entity is that it is not carried on for the profit or gain of its individual members.

The final criterion considered by the majority of respondents as essential is that it is funded by the government budget to deliver, as its principal activity, goods and/or services for no or nominal cost to the beneficiary. This result is unexpected given that this characteristic is not present for many private sector NFP entities - for example for member serving entities such as sporting facilities and professional organisations.

A more detailed picture can be seen when the responses are split into two groups.

#### **5.4 RESPONSES SPLIT BETWEEN PUBLIC AND PRIVATE SECTOR**

Tables 8 and 9 present the responses from the 497 respondents who selected private sector NFP entities as defined in Section 5.1. Tables 10 and 11 present the responses from the 363 respondents who selected public sector NFP entities.

**Table 8 – Private Sector Respondents – Which criteria are useful**

Criteria (See Section 3.4 for an expanded explanation of these criteria)	Strongly Agree	Agree	Neither Agree nor	Disagree	Strongly Disagree
Principal Objective	<b>54.8</b>	30.6	5.2	7.8	1.6
May Not Distribute Surpluses	<b>59.8</b>	27.4	4.8	6.0	2.0
Operating Purposes Other Than Profit	<b>47.5</b>	42.3	3.8	5.0	1.4
Profit Objective Not In Legislation	<b>39.6</b>	33.6	14.1	10.5	2.2
Does Not Pay Income Tax	<b>41.9</b>	39.2	8.2	8.5	2.2
Control Own Activities	29.9	<b>51.1</b>	12.5	5.7	0.8
Receives Significant NRT	15.9	<b>43.5</b>	20.1	15.1	5.4
Regular Meetings	35.8	<b>44.2</b>	11.5	6.1	2.4
Not Able To Transfer Ownership	23.0	<b>35.7</b>	22.0	16.1	3.2
Voluntary Input	19.4	<b>41.9</b>	20.2	14.5	4.0
Govt. Funded To Deliver At No Cost	6.7	22.8	20.6	<b>32.8</b>	17.1
Trades In Fully Contestable Market	4.2	24.0	<b>29.2</b>	27.7	14.9
Not Self-funding In Longer Term	5.8	17.5	21.4	<b>40.4</b>	14.9
Regulator Sets Prices	1.8	10.3	27.3	<b>40.2</b>	20.4
Monopoly Provider	1.2	3.4	17.2	<b>40.7</b>	37.5

**Table 9 - Private Sector Respondents – Primary and secondary criteria**

Criteria (See Section 3.4 for an expanded explanation of these criteria)	Number of Respondents who either Agree or Strongly Agree	Primary Criteria	Secondary Criteria
Operating Purposes Other Than Profit	445	<b>80.7</b>	19.3
Principal Objective	423	<b>82.5</b>	17.5
May Not Distribute Surpluses	431	<b>82.6</b>	17.4
Profit Objective Not In Legislation	361	<b>71.5</b>	28.5
Does Not Pay Income Tax	400	<b>61.8</b>	38.2
Regular Meetings	394	49.5	<b>50.5</b>
Control Own Activities	392	<b>51.5</b>	48.5
Not Able To Transfer Ownership	291	<b>60.1</b>	39.9
Receives Significant NRT	295	<b>50.5</b>	49.5
Voluntary Input	302	31.8	<b>68.2</b>

**Table 10 – Public Sector Respondents – Which criteria are useful**

Criteria (See Section 3.4 for an expanded explanation of these criteria)	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
Principal Objective	<b>62.7</b>	30.3	2.5	3.9	0.6
May Not Distribute Surpluses	30.3	<b>37.5</b>	14.6	14.3	3.3
Operating Purposes Other Than Profit	<b>45.7</b>	43.3	5.2	4.7	1.1
Profit Objective Not In Legislation	36.1	<b>41.6</b>	8.5	10.2	3.6
Does Not Pay Income Tax	31.9	<b>35.7</b>	13.3	14.7	4.4
Control Own Activities	11.0	<b>40.4</b>	22.4	22.9	3.3
Receives Significant NRT	12.5	<b>46.8</b>	22.4	14.7	3.6
Regular Meetings	22.9	<b>40.2</b>	14.6	14.3	8.0
Not Able To Transfer Ownership	24.8	<b>38.9</b>	19.0	12.9	4.4
Voluntary Input	6.4	22.4	28.7	<b>32.0</b>	10.5
Govt. Funded To Deliver At No Cost	28.7	<b>41.0</b>	9.1	17.1	4.1
Trades In Fully Contestable Market	5.0	17.1	23.8	<b>38.4</b>	15.7
Not Self-funding In Longer Term	16.6	<b>35.6</b>	18.2	23.8	5.8
Regulator Sets Prices	6.6	21.3	<b>32.5</b>	29.6	10.0
Monopoly Provider	7.2	16.8	27.5	<b>35.6</b>	12.9

**Table 11 – Public Sector Respondents – Primary and secondary criteria**

Criteria (See Section 3.4 for an expanded explanation of these criteria)	Number of Respondents who either Agree or Strongly Agree	Primary Criteria	Secondary Criteria
Operating Purposes Other Than Profit	321	<b>82.2</b>	17.8
Principal Objective	334	<b>90.7</b>	9.3
May Not Distribute Surpluses	242	<b>62.0</b>	38
Profit Objective Not In Legislation	279	<b>73.8</b>	26.2
Does Not Pay Income Tax	239	<b>55.2</b>	44.8
Regular Meetings	227	44.1	<b>55.9</b>
Control Own Activities	185	36.2	<b>63.8</b>
Not Able To Transfer Ownership	229	<b>59.8</b>	40.2
Receives Significant NRT	211	46.4	<b>53.6</b>
Govt. Funded To Deliver At No Cost	250	<b>65.2</b>	34.8
Not Self-funding In Longer Term	186	39.2	<b>60.8</b>

#### **5.4.1 Where there is consensus**

When the private and public sector responses are analysed separately, results indicate that both groups agree or strongly agree that nine of the 15 criteria are useful. Of those nine, both groups agree that the following six criteria are both useful and essential when defining an entity as NFP:

- It has operating purposes other than to provide goods or services at a profit
- It does not have as its principal objective the generation of profit
- It may not distribute surpluses
- It does not have in its legislation, associated regulations or constitution, the objective of the generation of profit
- It does not pay income tax or income tax equivalents
- It is not able to transfer ownership

These results indicate that preparers find a range of criteria essential components of a definition of a NFP entity in both the public and private sectors. This is in contrast to the current AIFRS definition that includes only the second of the above criteria.

Of the other three criteria that both groups agree are useful, there is consensus that the following criterion while being useful is not essential. Both groups agree that this criterion provides support when classifying an entity as NFP but is not conclusive in isolation:

- That the entity is organised

The private and public sector groups agree that the following two criteria are useful however, they differ on whether they are essential or supportive:

- It is able to control its own activities
- It receives contributions of significant amounts of resources from resources providers who do not expect commensurate or proportionate pecuniary return

Neither private nor public sector respondents considered the following three criteria were useful, however each group varied in the strength of their response:

- It provides goods or services in a market where a regulator sets prices
- It gains the majority of revenue from its trading or provision of services in a fully contestable market
- It is a monopoly provider

This result is not unexpected given the rejection of these criteria by AAC and the HOTARAC.

These results indicate that while there is significant consensus on the 'big picture' for 80% of the criteria, there are differences relating to the strength of opinions and the weighting given to a number of criteria.

#### **5.4.2 Where there is a lack of consensus**

The majority of public sector respondents disagreed with their private sector counterparts that some level of voluntary input into its operations was a useful criterion which is not surprising given that public sector entities are much less likely to include volunteers than private sector NFP entities. This criterion comes from the Lyons (1998) definition of non-government NFP entities.

The majority of public sector respondents also differed from the private sector by agreeing that not being self-funding in the longer-term was a useful criterion. This result is again not surprising given the inclusion of this criterion by the HOTARAC who consider it to be useful when defining public sector NFP entities. One reason for private sector respondents disagreeing with the usefulness of this criterion may be an understanding that private sector viability is dependent on an ability to be self-funding whether the entity is For Profit or NFP, whereas in the public sector this is not necessarily the case. It may be that this characteristic separates Public and Private sector entities rather than For Profit and NFP entities.

In contrast with public sector respondents, the majority of private sector respondents disagreed that funding from the government budget to deliver, as its principal activity, goods and/or services for no or nominal cost to the beneficiary was a useful criterion for defining and entity as NFP. It may be that this criterion – identified by the AAC and the HOTARAC – does not apply to many private sector entities who may not receive government funding or do not receive it for provision of their principal activity, or do not provide goods and/or services for no or nominal cost to the beneficiary. Member serving NFP entities such as sporting clubs are one group of NFP entities that would not find these criteria relevant to their organisations.

These findings indicate that preparers from each sector differ in their opinion of whether or not 20% or three of the criteria included in the survey are useful when defining an entity as NFP.

## **6 IMPLICATIONS FOR AUSTRALIAN REGULATORS**

The current definition of a NFP entity contained in the AIFRS does not capture many of the criteria that preparers consider essential to defining an entity as NFP. These preliminary results indicate that the AASB may want to consider the results of this study when reviewing the current definition of a NFP entity. Such a review will find it useful to consider both the usefulness of criteria and whether they are considered essential or supporting to the definition of a NFP entity.

While there is significant consensus, there is also disagreement between preparers considering public and private sector NFP entities over which criteria are essential to defining NFP entities in the two sectors. These preliminary results indicate that no one definition will capture both Private and Public Sector NFP entities. The AASB may want to consider developing a definition of a NFP entity that takes into account the differing needs of each sector. Other regulatory environments and accounting bodies provide guidance that will be useful in identifying differences between private and public NFP entities.

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