

**Staff Issues Paper**  
**Staff Summary of Comment Letters and Outreach**  
**ED 260 *Income of Not-for-Profit Entities***

**Purpose**

- 1 The purpose of this paper is to provide the Board with a summary of the feedback received on the specific matters for comment 1 – 5 and 9 for ED 260 *Income of Not-for-Profit Entities*<sup>1</sup> with a view to seeking a Board decision on the issues to be considered for redeliberation at future Board meetings.
- 2 As noted in Agenda Paper 14.3, staff plan to provide the Board with a summary of the feedback received on the remaining specific matters for comment at the October 2015 Board meeting.

**Due Process / Outreach Activity**

- 3 The comment period on ED 260 closed 14 August 2015. The AASB received 32 comment letters.<sup>2</sup> A listing of respondents is provided in Appendix A to this Agenda Paper.
- 4 In addition, roundtable discussions were undertaken in Melbourne, Canberra, Brisbane and Sydney in June 2015. Further outreach and education sessions were also undertaken during the comment period.

**Summary of Comments Received: Specific Matters for Comment 1 – 5 and 9**

**Overall**

- 5 Most constituents were supportive of the proposal to remove the current income recognition requirements based on the reciprocal / non-reciprocal transfer distinction in AASB 1004 *Contributions*.
- 6 Some constituents commented that the approach described in AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* might be more readily applicable to non-reciprocal contributions received by not-for-profit entities (whether from government or non-government contributors). Nonetheless, most constituents supported the inclusion of a requirement based on satisfying a performance obligation. Some constituents considered that the definition of constructive obligations in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* may be relevant to determine whether an entity has an agreement for the purposes of applying AASB 15 *Revenue from Contracts with Customers*.

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1 The closing date for comments to the AASB was 14 August and the majority of submissions were received after the closing date. For this reason the staff have been unable to complete the summary of comment letters for all thirteen specific matters for comment. This paper will be updated for specific matters for comment 6 – 8 and 10 – 13 for discussion at the October meeting. The link to ED 260 *Income of Not-for-Profit Entities* is [http://www.aasb.gov.au/admin/file/content105/c9/ACCED260\\_04-15.pdf](http://www.aasb.gov.au/admin/file/content105/c9/ACCED260_04-15.pdf)

<sup>2</sup> The submission #17 was not assigned to any of the comment letters.

- 7 Overall, constituents requested additional guidance and examples on enforceability and sufficiently specific, including examples across the range of different grants, bequests and donations.
- 8 Most of the constituents who commented on the proposed transitional provisions did not support the proposals and were of the opinion that the transition provisions should include an option of applying an approach similar to that adopted on first-time transition to Australian Accounting Standards (i.e., a deemed cost approach).

***Question 1 Proposed replacement of reciprocal / non-reciprocal transfer with a requirement based on satisfying a performance obligation***

Support

- 9 Most constituents expressed their support for the proposal to remove the current income recognition requirements based on the reciprocal / non-reciprocal transfer distinction in AASB 1004. A significant majority of those constituents supported the proposal to replace the current income recognition requirements with a requirement based on satisfying a performance obligation. One constituent<sup>3</sup> did not envisage any additional benefit from further elongating the project by pursuing alternative income recognition models.

Other views<sup>4</sup>

- 10 A few constituents<sup>5</sup> commented that the approach described in AASB 120 might be more readily applicable to non-reciprocal contributions received by not-for-profit entities (whether from government or non-government contributors). One other constituent<sup>6</sup> was opposed to expanding the application of AASB 120 as an appropriate solution.

Concerns and suggestions

- 11 One constituent<sup>7</sup> noted their concern around ambiguity of the existence of performance obligations and the ability to measure whether they have been met or not. This constituent expressed their concern that the proposals did not specify a clear difference between the accounting treatment of donations and grants.
- 12 One constituent<sup>8</sup> noted comments it receives regarding the appropriateness of a sector-neutral approach to standard setting and expressed the view that this issue requires further consideration by the AASB. One other constituent<sup>9</sup> noted the potential interaction between this project, the entity telling its story about income, and the AASB's project on service performance reporting and recommended that the AASB give further consideration to that interaction.

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<sup>3</sup> EY

<sup>4</sup> A comment made about the inappropriateness of the proposal to link the recognition of an obligation to the identification of sufficiently specific goods and/or services or enforceability under the arrangement and a comment about AASB 137 are included with other related comments to specific matter for comment 2

<sup>5</sup> Nexia, Queensland Treasury, and World Vision Australia

<sup>6</sup> Moore Stephens

<sup>7</sup> Australian Government, Department of Education & Training

<sup>8</sup> ACNC

<sup>9</sup> EY

***Question 2 Proposed requirement that to qualify as a performance obligation, the entity's promise must be sufficiently specific to be able to determine when the obligation is satisfied***

Support

- 13 The majority of constituents agreed with the proposal that to qualify as a performance obligation, a not-for-profit entity's promise to transfer a good or service to a counterparty in a contract must be sufficiently specific to be able to determine when the obligation is satisfied.

Other views

- 14 Some constituents noted that to qualify as a performance obligation required that the entity's promise be enforceable and sufficiently specific. One constituent<sup>10</sup> questioned whether enforceable agreement is the appropriate threshold for not-for-profit entities. One other constituent<sup>11</sup> did not support the proposal to link the recognition by a not-for-profit entity of an obligation under a grant or similar arrangement to the identification of sufficiently specific goods and/or services or enforceability under the arrangement because they are not necessarily natural features of many grant arrangements between governments and not-for-profit entities for the provision of outsourced government services. This constituent considered that the absence of these features in a government grant arrangement does not preclude the existence of an obligation for the not-for-profit entity recipient to sacrifice economic benefits in the future to another entity under the agreement.
- 15 One constituent<sup>12</sup> recommended that the Board consider whether the definition of constructive obligations in AASB 137 may be relevant to determine whether an entity has an agreement for the purposes of applying AASB 15. One constituent<sup>13</sup> questioned:
- (a) whether a constructive obligation as defined in paragraph 10 of AASB 137 in which the entity has a present obligation as a result of a past event satisfies:
    - (i) the conditions of a performance obligation regardless of whether a refund obligation exists; and/or
    - (ii) a liability as referred to in paragraphs 10 and 12(a) of [draft] AASB 10XX; and
  - (b) how a stated policy or commitment to provide certain goods or services is differentiated from a statement of intent described in the proposed Appendix E paragraph IG7(b) to AASB 15?

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<sup>10</sup> PwC

<sup>11</sup> Moore Stephens

<sup>12</sup> PwC

<sup>13</sup> Nexia

- 16 One constituent<sup>14</sup> expressed the position that as intention can be implicit it therefore considers that:
- (a) notwithstanding that untied grants to local government Councils are not legally tied to a performance obligation, the substance of the transactions are such as that the grants are intended by the grantor and grantee to be used to fund operating expenses over the period specified by the grantor. This intention is reflected in the words and actions of all parties;
  - (b) accordingly, the grant should be treated as revenue in the period in which these expenses are intended to be incurred. This treatment would result in a more faithful representation of local government financial statements and better comparability across periods and improved information to assist users of local government financial statements in making decisions and evaluating the operations of Councils.
- 17 On the matter of untied grants to local government Councils, one constituent<sup>15</sup> considered that there is validity in tailoring the recognition principles to ensure that where revenue is specifically designated by the payer for one or more future reporting periods, its recognition as revenue should only occur in those future periods. This constituent considered that the AASB should validate its recognition principles for recipients, by assessing the timing of recognition as an expense by the transferor under a variety of scenarios.
- 18 A number of constituents<sup>16</sup> did not support the proposal in Question 2, and the support of one constituent<sup>17</sup> was in the context of the AASB deciding not to further explore the approach described in AASB 120.
- 19 One constituent<sup>18</sup> who did not support the proposal noted that funding arrangements between grantors and not-for-profit entities often can be less formal and legalistic than what might occur in the private sector for corporates – often silent on whether the agreement is enforceable, and may not include an explicit clause whereby non-acquittal requires repayment of unspent funds. Sometimes, funding is received based on an application form, and there is no written agreement once the application is approved. In the case of not-for-profit entities' arrangements with government, this constituent noted the sufficiently specific criteria required may not be clearly communicated, and/or be vague on purpose so as to not limit the not-for-profit entity's options on achieving its set goals.
- 20 This constituent notes the practical consequence to these entities if they do not spend funding as implied is that they do not receive ongoing funding and risk significant reputational damage to such a point that it does compel them to use the funds appropriately (substance over form).

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<sup>14</sup> South Australian Local Government Financial Management Group

<sup>15</sup> Queensland Treasury

<sup>16</sup> ACNC, BDO, Moore Stephens, NT Local Government Accounting Advisory Committee, South Australian Local Government Financial Management Group, and William Buck

<sup>17</sup> Nexia

<sup>18</sup> BDO

- 21 One constituent<sup>19</sup> expressed the view that:
- (a) the application of the proposed sufficient specificity recognition criteria is arguably inconsistent with the AASB's policy of transaction neutrality. Overlaying the principles in AASB 15 with the sufficient specificity and enforceability criteria imposes a higher recognition threshold on not-for-profit entities with respect to government grants compared to the recognition criteria under AASB 120 applicable to for-profit entities (this constituent was opposed to expanding the application of AASB 120), thereby diminishing the comparability of for-profit and not-for-profit entity financial statements; and
  - (b) the proposed sufficient specificity criteria link recognition and measurement requirements in a manner that is inconsistent with approaches under other Australian Accounting Standards dealing with similar transactions. Australian Accounting Standards that deal with the accounting for provisions similar to performance obligations, including AASB 119 *Employee Benefits*, AASB 137, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, do not require an entity to be able to determine the expected pattern of provision of goods and/or services it will provide in respect of the provision into the future before it can recognise the liability. Moreover, AASB 15 does not premise recognition of a contract with a customer on the identification of the specific goods and/or services that might be provided under the agreement.

#### Concerns and suggestions

- 22 Some constituents identified a need for more guidance and/or illustrative examples. Some constituents provided examples to demonstrate the challenges and/or the outcomes of applying proposals.
- 23 One constituent<sup>20</sup> noted that for a research project of a University funded by a government grant the contractual deliverable is the actual conduct of the research itself, reporting on it progress towards milestones and outcomes set by the grantor and then publication of results in scholarly journals or through conference presentations. The University retains the intellectual property discovered by the project. This constituent was concerned that notwithstanding a return obligation for unspent funds and the very specific and detailed performance obligations expressed in the contract and the capacity to measure their attainment, a transfer as proposed in the ED might never take place.
- 24 One constituent<sup>21</sup> suggested that the not-for-profit guidance provide that the identification and satisfaction of performance obligations may be activities driven (i.e., the entity has satisfied its performance obligations as the activities are performed) rather than outcomes driven (i.e., transfer of a promised good or service). This constituent suggested that the approach in paragraph 21 of IPSAS 23 *Income from Non-Exchange Transactions (Taxes and Transfers)* be applied. Adopting the IPSAS 23 approach to enforceability, this constituent proposed that:

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<sup>19</sup> Moore Stephens

<sup>20</sup> AUSFOG

<sup>21</sup> Nexia

- (a) in determining whether an agreement is enforceable, the entity considers whether it would be enforced by the transferor;
  - (b) if past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits when breaches have occurred, then the recipient may conclude that the agreement has the form but not the substance of enforceability; and
  - (c) if the entity has no experience with the transferor, or has not previously breached stipulations that would prompt the transferor to decide whether to enforce a return of the asset or other future economic benefits, and it has no evidence to the contrary, it would assume that the arrangement is enforceable.
- 25 Some constituents expressed their concern about the proposals and the accounting treatment of perpetual endowments.
- 26 Some constituents noted the need for examples that addressed for example, capital grants, research projects funded by government grants, disaster recovery and relief arrangements, financial assistance grants, corporate funding for promotion of the arts, government grant funding and multilateral grant agreements.

***Question 3 Proposed requirement that a donation component in a contract with a customer is recognised as immediate income only when both steps in a two-step analysis are satisfied***

Support

- 27 The majority of constituents agreed with the proposed requirement that a donation component in a contract with a customer is recognised as immediate income only when both steps in a two-step analysis are satisfied.

Other views

- 28 A number of constituents<sup>22</sup> did not agree with retaining the first step of the proposed two-step analysis. Some constituents were like-minded in their disagreement. For example, those constituents noted that the difficulty with first step is that the entity needs to be able to determine what the customer's intention was at the time of the transaction. For some transactions, the amount of evidence to support the donor's intention will be limited or non-existent. Those constituents do not consider this intention test to be necessary to recognise a donation component and it imposes an unnecessary hurdle.
- 29 A few constituents<sup>23</sup> did not agree with the two-step analysis. One constituent<sup>24</sup> was of the view that the only situation in which a not-for-profit entity should identify and separately account for a donation in a contract is when it meets the criteria for tax deductibility by the customer. Another constituent<sup>25</sup> noted that tax deductibility

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<sup>22</sup> ACAG, Grant Thornton, KPMG, Moore Stephens, and Nexia

<sup>23</sup> ACNC, The University of Melbourne, and William Buck

<sup>24</sup> William Buck

<sup>25</sup> ACNC

effects refundability and that refundability should be the key criteria in determining donation components as it is a simpler test to apply.

#### Concerns and suggestions

- 30 One constituent<sup>26</sup> recommended that such a requirement should be accompanied by detailed guidance on how this be applied.
- 31 Two constituents<sup>27</sup> suggested an alternative approach to that proposed in ED 260 could include a rebuttable assumption that in providing goods and/or services to a customer the price received by the not-for-profit entity does not comprise a donation component, except when:
- (a) there is an active market for the goods or services; and
  - (b) there is a difference between the fair value of the goods or services based on current prices from the relevant active market and the transaction price, and the difference is material.
- 32 One constituent<sup>28</sup> commented the AASB should consider whether entities should be prohibited from recognising a donation component if it is material at an aggregate portfolio level and the criteria are met. This constituent also noted that paragraph BC52 of ED 260 further implies that materiality assessments at a contract versus portfolio level are a policy decision which is inconsistent with that in paragraph IG28.

#### *Question 4 Proposed approach to the recognition and measurement of volunteer services*

##### Support

- 33 The majority of constituents expressed their support for the proposal that the requirements (if any) for the recognition of volunteer services should be the same for all not-for-profit entities, regardless of whether they operate in the public or private sector. Most constituents considered that the recognition of volunteer services should be optional.

##### Other views

- 34 One constituent<sup>29</sup> did not agree with the proposal if it would require the recognition of volunteer services across the not-for-profit sector, primarily on cost-benefit grounds in respect of private not-for-profit entities. Two constituents<sup>30</sup> considered that the recognition of volunteer services should be required.

##### Concerns and suggestions

- 35 One constituent<sup>31</sup> considered there was a need to define volunteer services. This constituent considered that a definition would clarify if other in-kind services (e.g.,

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<sup>26</sup> World Vision Australia

<sup>27</sup> Moore Stephens and Nexia

<sup>28</sup> PwC

<sup>29</sup> Moore Stephens

<sup>30</sup> EY and KPMG

<sup>31</sup> AUSFOG

equipment and space) are in the scope of volunteer services and will follow the same treatment as volunteer services.

- 36 One constituent<sup>32</sup> noted that the conceptual basis for limiting the mandatory recognition of qualifying volunteer services in the public sector to those entities in paragraph 19 of the [draft] AASB 10XX is not clear. In respect of the public sector, this constituent encourages the AASB to expedite their consideration of whether such differentiation in public sector not-for-profit entities justifies different accounting requirements.
- 37 One constituent<sup>33</sup> considered that volunteer services should be a specific project of the AASB and not addressed in these current proposed changes. A few constituents<sup>34</sup> preferred that information about volunteer services be reported outside the not-for-profit entity's financial statements and the position of one constituent was for it to be considered as part of the AASB's service performance reporting project. One constituent<sup>35</sup> considered that the proposed illustrative example used to illustrate an accounting treatment for volunteer services was overly simplistic.

***Question 5 Proposed approach to the recognition and measurement of inventories donated other than as part of a contract with a customer***

Support

- 38 Most constituents expressed their support for the proposal that an entity needs to assess the materiality of a donation at the transaction level rather than at a portfolio level.

Concerns and suggestions

- 39 One constituent<sup>36</sup> commented that the proposal to include materiality guidance in [draft] AASB 10XX appears to conflict with the AASB's current policy of not providing unnecessary local guidance on matters covered by IFRS.

***Question 9 Proposed transitional provisions***

Support

- 40 Eighteen constituents commented on the proposal. Some constituents<sup>37</sup> supported the proposed transition provisions in Appendix C of ED 260. Most did not.

Other views

- 41 Most of the constituents who did not support the proposals were of the opinion that the transition provisions should include an option of applying an approach similar to that

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<sup>32</sup> ACAG

<sup>33</sup> ACNC

<sup>34</sup> Australian Government, Department of Education & Training, Grant Thornton, and HoTARAC

<sup>35</sup> Saward Dawson

<sup>36</sup> Moore Stephens

<sup>37</sup> ACAG, Family Planning NSW, IPA, and the Local Government Finance Professional Inc



adopted on first-time transition to Australian Accounting Standards (i.e., a deemed cost approach). One constituent<sup>38</sup> supported a prospective approach.

## Appendix A

Comment letters to ED 260 were received from:

- (a) Australian Government, Department of Education & Training;
- (b) Australian Bureau of Statistics;
- (c) Australasian Council of Auditors-General;
- (d) Australian Charities and Not-for-Profit Commission;
- (e) Association of Independent Schools of NSW;
- (f) Australian University Senior Finance Officers Group;
- (g) BDO;
- (h) CPA Australia and CA ANZ;
- (i) EY;
- (j) Family Planning NSW;
- (k) Go8 University CFOs;
- (l) Grant Thornton;
- (m) Heads of Treasuries Accounting and Reporting Advisory Committee;
- (n) Independent Living Centre Tasmania;
- (o) The Institute of Public Accountants;
- (p) KPMG;
- (q) Local Government Finance Professional (Qld);
- (r) M.A Smallsman;
- (s) Moore Stephens;
- (t) Nexia Australia;
- (u) NSW Local Government Finance Professionals Network;
- (v) NT Local Government Accounting Advisory Committee;

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<sup>38</sup> William Buck

- (w) Peter Batten;
- (x) PwC;
- (y) Queensland Treasury;
- (z) South Australian Local Government Financial Management Group;
- (aa) Saward Dawson;
- (bb) South African Accounting Standards Board;
- (cc) The University of Melbourne;
- (dd) The University of New South Wales;
- (ee) William Buck; and
- (ff) World Vision Australia.