Australian Government
Australian Accounting Standards Board

Exposure Draft

Implementation Guidance for Not-for-Profit Entities on Categorising Income and Expenses

November 2026

Comments due by 19 March 2027

ED 342

What is this consultation about?

This consultation seeks feedback on proposed amendments to AASB 18 *Presentation and Disclosure in Financial Statements* and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to add mandatory implementation guidance and illustrative examples to both Standards. The proposed guidance would be applied by Tier 1 and Tier 2 not-for-profit (NFP) entities in:

(a) assessing when investing in particular types of assets or providing financing to customers is a specified main business activity; and

(b) determining the statement of profit or loss categories for income recognised under AASB 1058 *Income of Not-for-Profit Entities*.

Stakeholders are also asked to provide feedback on the expected incremental costs or cost savings for NFP entities of applying the income and expense categorisation requirements in AASB 18 and AASB 1060 relative to the current requirements and how they compare with the expected benefits of the proposals to users.

Your feedback is important

Your feedback is crucial to our decision-making process as the AASB considers changing the requirements of Australian Accounting Standards.

Please provide comments to the AASB by 19 March 2027.

Comments can be provided by:

- Lodging a submission via the **AASB website**
- Emailing **standard@aasb.gov.au**
- Completing the **online survey**

All comments will be published on our website unless it is in the public interest not to do so. If you have any objection to the release of your comments, include a request to withhold publication with your submission or a cover letter outlining the public interest grounds you believe apply.

COPYRIGHT © Commonwealth of Australia 2026. This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights should be addressed to The Managing Director, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007. ISSN 1030-5882

Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards.

The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the three tiers of Australian Accounting Standards.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Why we are making these proposals

When effective, AASB 18 *Presentation and Disclosure in Financial Statements* and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (as amended by AASB 2026-6 *Amendments to Australian Accounting Standards – Tier 2 Classification and Presentation*) introduce new income and expense categorisation requirements when presenting the statement of profit or loss.

The AASB developed this Exposure Draft in response to stakeholder feedback received on ED 338 *Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation* and ED 341 *Updating AASB 1060 to Align the Classification and Presentation Requirements with AASB 18* that additional guidance and clarification is needed to assist not-for-profit (NFP) entities in applying the new requirements.

This Exposure Draft proposes adding mandatory implementation guidance and illustrative examples to AASB 18 and AASB 1060 to assist NFP entities in preparing Tier 1 and Tier 2 general purpose financial statements (GPFS).

What we are proposing

This Exposure Draft proposes mandatory implementation guidance for NFP entities to apply in:

(a) assessing when investing in particular types of assets or providing financing to customers is a specified main business activity under AASB 18 and AASB 1060; and

(b) determining the statement of profit or loss categories set out in AASB 18 and AASB 1060 for income recognised under AASB 1058 *Income of Not-for-Profit Entities*.

This Exposure Draft also proposes illustrative examples to assist NFP entities in respect of (a).

Application Date

This Exposure Draft proposes amendments applicable to Tier 1 and Tier 2 NFP entities, with earlier application permitted, as follows:

(a) Tier 1 NFP entities applying AASB 18, for annual periods beginning on or after 1 January 2028; and

(b) Tier 2 NFP entities applying AASB 1060, for annual periods beginning on or after 1 July 2030.

What happens next

The AASB will consider feedback on this Exposure Draft at future meetings and, based on the information received, will determine whether the proposals should be implemented, with or without amendment. Depending on the nature and extent of the feedback, the AASB may publish a Fatal-Flaw Review Draft to enable further consultation with stakeholders.

We need your feedback

Comments are invited on any of the proposals in this Exposure Draft by 19 March 2027. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Specific matters for comment

This Exposure Draft proposes to include:

(a) Appendix E *Australian implementation guidance for not-for-profit entities* in AASB 18;

(b) Appendix D *Implementation guidance for not-for-profit entities* in AASB 1060; and

(c) *Illustrative examples for not-for-profit entities* to accompany AASB 18 and AASB 1060.

The proposed mandatory implementation guidance in Appendix E to AASB 18 and Appendix D to AASB 1060 is identical, except for differences in paragraph references. Accordingly, respondents need review only one appendix when considering Questions 3 and 6. The proposed illustrative examples are intended to accompany both Standards.

The AASB would particularly value comments on the following specific matters.

Costs and benefits of applying the new income and expense categorisation requirements

As outlined in paragraphs BC9–BC14, in the feedback received on ED 341 a minority of stakeholders raised concerns about the suitability of the AASB 18 income and expense categorisation requirements for Tier 2 NFP entities, including implementation costs and limited user need. Since this feedback differs from comments supporting the general application of AASB 18 to NFP entities previously received, the AASB decided to seek further feedback on the costs and benefits of applying the AASB 18 requirements to Tier 1 and Tier 2 NFP entities.

1 Do you have any comments on the expected incremental costs and benefits of NFP entities applying the income and expenses categorisation requirements in AASB 18 and AASB 1060, compared with the existing requirements?

2 In particular, do you have any comments on the expected incremental costs and benefits of NFP entities assessing whether they have a specified main business activity for the purposes of applying those requirements?

In responding to Questions 1 and 2, respondents are encouraged, where possible, to provide quantitative information about the expected incremental costs or cost savings relative to the current requirements, including:

(a) costs or cost savings associated with implementing the new requirements; and

(b) costs or cost savings associated with their ongoing application.

Respondents are also encouraged to explain how these costs or cost savings compare with the expected benefits of the proposals to users of Tier 1 and Tier 2 NFP entity GPFS.

Specified main business activities

The proposed mandatory application guidance in the appendices to AASB 18 and AASB 1060 is intended to help clarify how the specified main business activity requirements are to be applied in an NFP context. The proposed application guidance:

(a) clarifies that an NFP entity may assess that it invests in particular types of assets or provides financing to customers as a main business activity despite having a charitable, public benefit or other not-for-profit objective (AASB 18.E11 and AASB 1060.D11); and

(b) explains that evidence of a specified main business activity may include whether an NFP entity prepares separate budgets, forecasts, financial performance reports or other disaggregated financial information for the investing or financing activities for internal management purposes (AASB 18.E12 and AASB 1060.D12).

Pages 16–18 of this Exposure Draft propose illustrative examples to accompany AASB 18 and AASB 1060.

3 Do you have any comments on the mandatory implementation guidance in paragraphs E10–E13 of the proposed Appendix E to AASB 18 and paragraphs D10–D13 of the proposed Appendix D to AASB 1060? In particular, do you agree with the proposal that evidence of an NFP entity having a specified main business activity may include separate budgets, forecasts, financial performance reports or other disaggregated financial information prepared for internal management purposes? Please explain your reasons.

4 Do you have any comments on the proposed illustrative examples set out on pages 16–18 of this Exposure Draft, including whether they are helpful to NFP entities in applying the specified main business activity requirements? Please explain your reasons.

5 Have you identified any additional principles, indicators or guidance that you consider would be useful to support consistent application of the specified main business activity requirements? Please provide details.

Categorisation of income recognised under AASB 1058

The proposed mandatory implementation guidance in the appendices to AASB 18 and AASB 1060 clarifies:

(a) income arising from the initial recognition of an asset acquired at significantly less than fair value principally to enable an entity to further its objectives – recognised in accordance with AASB 1058.10 – is categorised in the operating category. This is irrespective of the nature of asset acquired or whether the entity intends to generate investment returns from that asset subsequently, and any conditions attached to the acquisition of the asset that require the asset to be used subsequently to generate investment returns (AASB 18.E14 and AASB 1060.D14);

(b) capital grant income – recognised in accordance with AASB 1058.17 as the liability recognised under AASB 1058.16 is reduced – is categorised in the operating category. This classification is consistent with AASB 18.B48 and B49, which explain that income and expenses associated with property, plant and equipment are generally classified in the operating category (AASB 18.E17 and AASB 1060.D17); and

(c) unless investing in assets is a main business activity, investment income generated from donated financial assets – is recognised in the investing category in accordance with AASB 18.53(b). This applies irrespective of whether the entity uses the income to fund charitable purposes, deliver public benefits or other NFP purposes or receives donated cash and cash equivalents or other financial assets with a condition specifying that any investment returns must be used to fund a charitable or other NFP purpose (AASB 18.E18 and AASB 1060.D18). An entity may provide additional disclosures to explain any restrictions placed on the use of income.

6 Do you agree with the proposed mandatory implementation guidance included in paragraphs AASB 18.E14–E20 and AASB 1060.D14–D20? Please explain your reasons.

7 Have you identified any additional guidance that you consider would be useful to support the categorisation of income recognised under AASB 1058? Please provide details.

Effective date

This Exposure Draft proposes amendments applicable to Tier 1 and Tier 2 NFP entities, with earlier application permitted, as follows:

(a) Tier 1 NFP entities applying AASB 18, for annual periods beginning on or after 1 January 2028; and

(b) Tier 2 NFP entities applying AASB 1060, for annual periods beginning on or after 1 July 2030.

8 Do you consider the mandatory application date of 1 January 2028, with earlier application permitted, for NFP entities preparing Tier 1 GPFS remains appropriate? Please explain your reasons.

9 Do you consider the mandatory application date of 1 July 2030, with earlier application permitted, for NFP entities preparing Tier 2 GPFS remains appropriate? Please explain your reasons.

General matters for comment

The AASB would also particularly value comments on the following general matters:

10 Has the *AASB Not-for-Profit Entity Standard-Setting Framework* been applied appropriately in developing the proposals in this Exposure Draft?

11 Are there any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals?

12 Do the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

13 Overall, would the proposals result in financial statements that would be useful to users?

14 Are the proposals in the best interests of the Australian economy?

Contents

PREFACE

[DRAFT] ACCOUNTING STANDARD
AASB 2027-X *IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES ON CATEGORISING INCOME AND EXPENSES*

from paragraph

OBJECTIVE **1**
APPLICATION **2**
AMENDMENTS TO AASB 18 **4**
AMENDMENTS TO AASB 1060 **6**
COMMENCEMENT OF THE LEGISLATIVE INSTRUMENT **8**

[DRAFT] BASIS FOR CONCLUSIONS

[Draft] Australian Accounting Standard AASB 2027-X *Implementation Guidance for Not-for-Profit Entities on Categorising Income and Expenses* is set out in paragraphs 1–8. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2027-X

This [draft] Standard makes amendments to AASB 18 *Presentation and Disclosure in Financial Statements* (June 2024) and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) to include implementation guidance for not-for-profit (NFP) entities on categorising income and expenses.

Main features of this Standard

Main requirements

This [draft] Standard amends AASB 18 in respect to the preparation of Tier 1 general purpose financial statements (GPFS), and AASB 1060 in respect of Tier 2 GPFS, by adding mandatory implementation guidance to assist not-for-profit entities to:

(a) assess whether investing in particular types of assets or providing financing to customers is a specified main business activity; and

(b) categorise income recognised under AASB 1058 *Income of Not-for-Profit Entities* in the statement of profit or loss.

Application date

This [draft] Standard makes amendments applicable to Tier 1 and Tier 2 NFP entities, with earlier application permitted, as follows:

(a) Tier 1 NFP entities applying AASB 18, for annual periods beginning on or after 1 January 2028; and

(b) Tier 2 NFP entities applying AASB 1060, for annual periods beginning on or after 1 July 2030.

[Draft] Accounting Standard AASB 2027-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2027-X *Implementation Guidance for Not-for-Profit Entities on Categorising Income and Expenses* under section 334 of the *Corporations Act 2001*.

Dated … [date] Chair – AASB

[Draft] Accounting Standard AASB 2027-X *Implementation Guidance for Not-for-Profit Entities on Categorising Income and Expenses*

Objective

1 This [draft] Standard amends AASB 18 *Presentation and Disclosure in Financial Statements* (June 2024) and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) to include implementation guidance for not-for-profit (NFP) entities on categorising income and expenses.

Application

2 The amendments set out in this [draft] Standard apply to entities and financial statements in accordance with the application of the other Standards set out in AASB 1057 *Application of Australian Accounting Standards*.

3 This [draft] Standard applies to annual periods beginning on or after … [1 January 2028], except that the amendments to AASB 1060 apply to not-for-profit Tier 2 entities for annual periods beginning on or after … [1 July 2030]. Earlier application is permitted.

Amendments to AASB 18

4 Appendix E *Australian implementation guidance for not-for-profit entities* is added to AASB 18 as set out on pages 10–12 of this Standard.

5 *Illustrative examples for not-for-profit entities* is attached to accompany AASB 18 as set out on pages 16–18 of this Standard.

Amendments to AASB 1060

6 Appendix D *Implementation guidance for not-for-profit entities* is added to AASB 1060 as set out on pages 13–15 of this Standard.

7 *Illustrative examples for not-for-profit entities* is attached to accompany AASB 1060 as set out on pages 16–18 of this Standard.

Commencement of the legislative instrument

8 For legal purposes, this legislative instrument commences as follows:

(a) this paragraph commences on … [31 December 2027];

(b) paragraphs 4-5 commence on … [31 December 2027] in relation to Tier 1 not-for-profit entities; and

(c) paragraphs 6–7 commence on … [30 June 2030] in relation to Tier 2 not-for-profit entities.

Appendix E [for AASB 18]
Australian implementation guidance for not-for-profit entities

This appendix is an integral part of AASB 18. This applies only to not-for-profit entities. Paragraph references in this appendix are to paragraphs of AASB 18 unless otherwise indicated.

Introduction

E1 This appendix does not apply to for-profit entities or affect their application of AASB 18.

E2 Paragraph 47 requires an entity to classify income and expenses included in the statement of profit or loss in one of the following five categories:

(a) the operating category;

(b) the investing category;

(c) the financing category;

(d) the income taxes category; or

(e) the discontinued operations category.

E3 The operating, investing and financing categories in AASB 18 are defined differently from the cash flow classifications in AASB 107 *Statement of Cash Flows*. For example, under AASB 107, investing cash flows include those arising from the disposal of property, plant and equipment, whereas under AASB 18 any gains and losses arising from disposal of such assets are categorised as operating in the statement of profit or loss. If the notions of operating, investing and financing activities set out in AASB 107 were applied to categorising income and expenses, they may not achieve the same categorisation outcomes as applying AASB 18.

E4 When categorising income and expenses, a not-for-profit entity shall apply the definitions and guidance in AASB 18 and not AASB 107.

The operating category

E5 Paragraph 52 requires an entity to classify all income and expenses in the operating category that are not classified in the other categories. Paragraph B42 states that the operating category is not limited to income and expenses from an entity's main business activities.

E6 Since the operating category is the default (or residual) category, classification in that category is determined only after an entity has assessed whether income or expenses are required to be classified in another category.

The investing category

E7 Except to the extent that an entity invests in assets as a main business activity, paragraphs 53 and 54 require an entity to classify all the income and expenses generated by the following assets in the investing category:

(a) investments in associates, joint ventures and unconsolidated subsidiaries;

(b) cash and cash equivalents; and

(c) other assets if they generate a return individually and largely independently of the entity's other resources.

E8 Assets that generate a return individually and largely independently of the entity's other resources include debt or equity investments and investment properties. Paragraphs B45–B47 provide examples of income and expenses generated by such assets, which include interest, dividends and rental income.

The financing category

E9 Paragraphs 59–64 require an entity to present the following in the financing category:

(a) income and expenses from liabilities that arise from transactions that involve only the raising of finance, except to the extent that they relate to providing financing to customers and the entity has financing as a specified main business activity. As outlined in paragraphs B50–B52, this includes interest expenses on debt instruments and fair value gains and losses on liabilities designated at fair value through profit or loss; and

(b) specified income and expenses from liabilities that do not involve only the raising of finance. As outlined in paragraphs B53–B54, this includes interest expenses on:

(i) a lease liability recognised under AASB 16 *Leases*;

(ii) a contract liability with a significant financing component recognised under AASB 15 *Revenue from Contracts with Customers*; and

(iii) a payable arising from the purchase of goods or services applying AASB 9 *Financial Instruments*.

Not-for-profit entities with specified main business activities

E10 Paragraphs 49 and 50 require an entity to determine whether it has a main business activity of investing in particular types of assets, referred to hereafter as investing in assets, or providing financing to customers. If so, income and expenses arising from those activities are classified in the operating category of the statement of profit or loss.

E11 Despite having a charitable, public benefit or other not-for-profit objective, an entity may have investing or financing activities as a specified main business activity. That could be the case because a not-for-profit entity has a main business activity of investing in assets or providing financing to customers that ultimately achieves charitable purposes or public benefit objectives. A not-for-profit entity may undertake activities to further its objectives that include, for example:

(a) providing micro-finance loans for the purpose of delivering social benefits;

(b) holding a portfolio of investments and distributing the investment returns as grants to other not-for-profit entities; or

(c) holding investment properties that are rented to members of the community as part of a social housing arrangement.

E12 Consistent with paragraphs B33–B36, evidence that a not-for-profit entity has a main business activity of investing in assets or providing financing to customers may include financial information prepared for either external reporting or internal management purposes. Such evidence may include that the entity:

(a) uses measures of financial performance relating to those activities to explain operating performance externally, or to assess or monitor operating performance internally; and

(b) prepares budgets, forecasts, financial performance reports or other disaggregated financial information for those activities for internal management decision making.

E13 Conducting one or more of the activities described in paragraph E11 would not, of itself, necessarily mean that investing in assets or providing financing to customers is a main business activity. An entity shall apply judgement and consider all relevant facts and circumstances, including the significance of those activities to its overall operations.

Classification of income recognised under AASB 1058 *Income of Not-for-Profit Entities*

Income arising from initial recognition of an asset acquired at significantly less than fair value principally to enable a not-for-profit entity to further its objectives

E14 Income arising from initial recognition of an asset acquired at significantly less than fair value principally to enable a not-for-profit entity to further its objectives, in accordance with paragraph 10 of AASB 1058, is categorised in the operating category. This applies irrespective of:

(a) the nature of the asset acquired or whether the entity intends to generate investment returns from that asset subsequently; and

(b) any conditions attached to the acquisition of the asset that require the asset to be used subsequently to generate investment returns.

E15 This classification is consistent with the principle in paragraph 53 that investment income and expenses are amounts arising from holding particular types of assets and not income from the initial recognition of those assets.

Income arising from reduction of a liability related to a transfer to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity

E16 Paragraph 16 of AASB 1058 requires an entity to recognise a liability for the excess of the initial carrying amount of a financial asset received in a transfer to enable the entity to acquire or construct a recognisable non-financial asset that is to be controlled by the entity over any related amounts recognised in accordance with paragraph 9 of AASB 1058. Paragraph 17 of AASB 1058 requires the entity to recognise income, and reduce the liability, when (or as) it satisfies its obligations under the transfer.

E17 The income recognised as the liability is reduced in accordance with paragraph 17 of AASB 1058 is classified in the operating category. Although the transferred financial asset may be held temporarily before being applied to acquire or construct a non-financial asset, the income does not arise from generating a return on an investment asset. Rather, it arises from the satisfaction of obligations attached to a transfer received to acquire or construct a non-financial asset. This classification is consistent with paragraphs B48 and B49, which explain that income and expenses associated with property, plant and equipment are generally classified in the operating category.

Investment income generated from donated financial assets

E18 Unless an entity invests in assets as a main business activity, investment income that arises from holding cash and cash equivalents and financial assets is recognised in the investing category applying paragraph 53(b). This applies irrespective of whether the not-for-profit entity:

(a) uses the investment income to fund charitable purposes, deliver public benefits, or other not-for-profit purposes; or

(b) receives donated cash and cash equivalents or other financial assets with a condition specifying that any investment returns must be used to fund a charitable or other not-for-profit purpose.

E19 Consistent with paragraph 20 and paragraph 37 of AASB 1058, if a not-for-profit entity considers that users of its financial statements need information to understand the restrictions attached to donated assets and how the associated income has been presented in the statement of profit or loss, the entity may provide additional disclosures.

E20 A not-for-profit entity may also consider the aggregation and disaggregation principles in paragraphs 41–43 when presenting income-related line items in the statement of profit or loss. In particular, the entity may consider whether separate presentation, labelling or additional descriptions would provide material information and faithfully represent the characteristics of the related income. For example, a not-for-profit entity may receive a grant that is required to be used in a future period and may earn interest on the associated cash balances before the grant is applied for its intended purpose. The grant agreement may stipulate that both the original grant and the interest earned are to be used for the purpose for which the grant was provided. In these circumstances, the entity may consider how the interest income presented in the investing category should be labelled and described to faithfully represent its characteristics, including the fact that it is required to be used for the same purpose as the related grant income presented in the operating category.

Appendix D [For AASB 1060]

Implementation guidance for not-for-profit entities

This appendix is an integral part of AASB 1060. This applies only to not-for-profit entities. Paragraph references in this appendix are to paragraphs of AASB 1060 unless otherwise indicated.

Introduction

D1 This appendix does not apply to for-profit entities or affect their application of AASB 1060.

D2 Paragraph 57A requires an entity to classify income and expenses included in the statement of profit or loss in one of the following five categories:

(a) the operating category;

(b) the investing category;

(c) the financing category;

(d) the income taxes category; or

(e) the discontinued operations category.

D3 The operating, investing and financing categories in paragraph 57A are defined differently from the cash flow classifications in paragraphs 66–69. For example, under paragraph 68, investing cash flows include those arising from the disposal of property, plant and equipment, whereas under paragraph 57G any gains and losses arising from disposal of such assets are categorised as operating in the statement of profit or loss. Applying the notion of operating, investing and financing activities set out in paragraphs 66–69 when categorising income and expenses may not achieve the same categorisation outcomes as applying paragraph 57A.

D4 When categorising income and expenses, a not-for-profit entity shall apply the definitions and guidance in paragraphs 57A–57W and not paragraphs 66–69.

The operating category

D5 Paragraph 57G requires an entity to classify all income and expenses in the operating category that are not classified in the other categories. Paragraph B42 states that the operating category is not limited to income and expenses from an entity's main business activities.

D6 Since the operating category is the default (or residual) category, classification in that category is determined only after an entity has assessed whether income or expenses are required to be classified in another category.

The investing category

D7 Except to the extent that an entity invests in assets as a main business activity, paragraphs 57H and 57I require an entity to classify all the income and expenses generated by the following assets in the investing category:

(a) investments in associates, joint ventures and unconsolidated subsidiaries;

(b) cash and cash equivalents; and

(c) other assets if they generate a return individually and largely independently of the entity's other resources.

D8 Assets that generate a return individually and largely independently of the entity's other resources include debt or equity investments and investment properties. Paragraphs B45–B47 provide examples of income and expenses generated by such assets, which include interest, dividends and rental income.

The financing category

D9 Paragraphs 57N–57S require an entity to present the following in the financing category:

(a) income and expenses from liabilities that arise from transactions that involve only the raising of finance, except to the extent that they relate to providing financing to customers and the entity has financing as a specified main business activity. As outlined in paragraphs B50–B52, this includes

interest expenses on debt instruments and fair value gains and losses on liabilities designated at fair value through profit or loss; and

(b) specified income and expenses from liabilities that do not involve only the raising of finance. As outlined in paragraphs B53–B54, this includes interest expenses on:

(i) a lease liability recognised under AASB 16 *Leases*;

(ii) a contract liability with a significant financing component recognised under AASB 15 *Revenue from Contracts with Customers*; and

(iii) a payable arising from the purchase of goods or services applying AASB 9 *Financial Instruments*.

Not-for-profit entities with specified main business activities

D10 Paragraphs 57D and 57E require an entity to determine whether it has a main business activity of investing in particular types of assets, referred to hereafter as investing in assets, or providing financing to customers. If so, income and expenses arising from those activities are classified in the operating category of the statement of profit or loss.

D11 Despite having a charitable, public benefit or other not-for-profit objective, an entity may have investing or financing activities as a specified main business activity. That could be the case because a not-for-profit entity has a main business activity of investing in assets or providing financing to customers that ultimately achieves charitable purposes or public benefit objectives. A not-for-profit entity may undertake activities to further its objectives that include, for example:

(a) providing micro-finance loans for the purpose of delivering social benefits;

(b) holding a portfolio of investments and distributing the investment returns as grants to other not-for-profit entities; or

(c) holding investment properties that are rented to members of the community as part of a social housing arrangement.

D12 Consistent with paragraphs B33–B36, evidence that a not-for-profit entity has a main business activity of investing in assets or providing financing to customers may include financial information prepared for either external reporting or internal management purposes. Such evidence may include that the entity:

(a) uses measures of financial performance relating to those activities to explain operating performance externally, or to assess or monitor operating performance internally; and

(b) prepares budgets, forecasts, financial performance reports or other disaggregated financial information for those activities for internal management decision making.

D13 Conducting one or more of the activities described in paragraph D11 would not, of itself, necessarily mean that investing in assets or providing financing to customers is a main business activity. An entity shall apply judgement and consider all relevant facts and circumstances, including the significance of those activities to its overall operations.

Classification of income recognised under AASB 1058 *Income of Not-for-Profit Entities*

Income arising from initial recognition of an asset acquired at significantly less than fair value principally to enable a not-for-profit entity to further its objectives

D14 Income arising from initial recognition of an asset acquired at significantly less than fair value principally to enable a not-for-profit entity to further its objectives, in accordance with paragraph 10 of AASB 1058, is categorised in the operating category. This applies irrespective of:

(a) the nature of the asset acquired or whether the entity intends to generate investment returns from that asset subsequently; and

(b) any conditions attached to the acquisition of the asset that require the asset to be used subsequently to generate investment returns.

D15 This classification is consistent with the principle in paragraph 57H that investment income and expenses are amounts arising from holding particular types of assets and not income from the initial recognition of those assets.

Income arising from reduction of a liability related to a transfer to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity

D16 Paragraph 16 of AASB 1058 requires an entity to recognise a liability for the excess of the initial carrying amount of a financial asset received in a transfer to enable the entity to acquire or construct a recognisable non-financial asset that is to be controlled by the entity over any related amounts recognised in accordance with paragraph 9 of AASB 1058. Paragraph 17 of AASB 1058 requires the entity to recognise income, and reduce the liability, when (or as) it satisfies its obligations under the transfer.

D17 The income recognised as the liability is reduced in accordance with paragraph 17 of AASB 1058 is classified in the operating category. Although the transferred financial asset may be held temporarily before being applied to acquire or construct a non-financial asset, the income does not arise from generating a return on an investment asset. Rather, it arises from the satisfaction of obligations attached to a transfer received to acquire or construct a non-financial asset. This classification is consistent with paragraphs B48 and B49, which explain that income and expenses associated with property, plant and equipment are generally classified in the operating category.

Investment income generated from donated financial assets

D18 Unless an entity invests in assets as a main business activity, investment income that arises from holding cash and cash equivalents and financial assets is recognised in the investing category applying paragraph 57H(b). This applies irrespective of whether the not-for-profit entity:

(a) uses the investment income to fund charitable purposes, deliver public benefits, or other not-for-profit purposes; or

(b) receives donated cash and cash equivalents or other financial assets with a condition specifying that any investment returns must be used to fund a charitable or other not-for-profit purpose.

D19 Consistent with paragraph 9, if a not-for-profit entity considers that users of its financial statements need information to understand the restrictions attached to donated assets and how the associated income has been presented in the statement of profit or loss, the entity may provide additional disclosures.

D20 A not-for-profit entity may also consider the aggregation and disaggregation principles in paragraphs 21–22A when presenting income-related line items in the statement of profit or loss. In particular, the entity may consider whether separate presentation, labelling or additional descriptions would provide material information and faithfully represent the characteristics of the related income. For example, a not-for-profit entity may receive a grant that is required to be used in a future period and may earn interest on the associated cash balances before the grant is applied for its intended purpose. The grant agreement may stipulate that both the original grant and the interest earned are to be used for the purpose for which the grant was provided. In these circumstances, the entity may consider how the interest income presented in the investing category should be labelled and described to faithfully represent its characteristics, including the fact that it is required to be used for the same purpose as the related grant income presented in the operating category.

Illustrative examples for not-for-profit entities

These illustrative examples accompany, but are not part of, [AASB 18/AASB 1060].

IE1 The following examples portray hypothetical situations. They are intended to illustrate how a not-for-profit entity might apply the specified main business activity requirements set out in [paragraphs 49–50 and paragraphs E10–E13 of Appendix E of AASB 18/paragraphs 57D–57E and paragraphs D10–D13 of Appendix D of AASB 1060] on the basis of the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of an entity would need to be evaluated when determining whether an entity has a specified main business activity. The evaluations in each example are not intended to represent the only manner in which the specified main business activity requirements could be applied.

IE2 Examples 1–3 illustrate how a not-for-profit entity might assess whether it invests in assets as a main business activity.

Example 1 – Grant-making foundation

Entity A is a not-for-profit entity that has an objective of improving mental health outcomes for young adults in regional areas. However, it does not directly provide health services. Entity A holds significant investments in equity and debt securities. Returns from those investments are used to fund grants provided to organisations that deliver mental health support services.

Entity A's board includes members with expertise in mental health and investment management. Although Entity A does not actively trade investments, it closely monitors investment performance and prepares budgets and forecasts based on expected investment returns to determine a sustainable level of grant funding. Measures relating to investment performance are used internally to assess operating performance.

Specified main business activity assessment

Entity A determined that it invests in assets as a main business activity. It uses financial information relating to its investments to assess operating performance and prepares financial forecasts and budgets focused on investment activities.

Entity A classifies income and expenses arising from investments in equity and debt securities in the operating category, which would result in the principal sources of income and grant-related expenses both being presented in the operating category.

Example 2 – Social housing organisation

Entity B is a not-for-profit entity that owns properties in several suburbs that are rented to low-income families as part of a government-sponsored social housing arrangement. Entity B's main sources of income are rentals from tenants and rental subsidies from government.

Entity B closely monitors rental income because tenant defaults put the entity's viability at risk and affect its credibility with the government agency that oversees rental subsidies. The entity's main expenses are council rates and house repairs and maintenance.

Specified main business activity assessment

Entity B determined that it invests in assets as a main business activity. It uses financial information relating to its social housing properties to explain its operating performance to the government agency that grants the rental subsidies. The entity also prepares forecasts that internal management use to project rental income and plan for repairs and maintenance expenses that are required to be incurred to maintain its houses to required standards.

Entity B classifies income and expenses arising from its social housing properties in the operating category, which would result in the rental income and subsidies being presented in the operating category together with the council rates and house repairs and maintenance expenses.

Example 3 – Medical transport charity

Entity C is a not-for-profit entity focused on providing free transport between home and medical appointments for low-income elderly people across the northern suburbs. It has investments in term deposits that are the result of several bequests.

Entity C receives donations, government grants and income from the term deposits, which it uses to reimburse fuel costs of its volunteer workforce.

Specified main business activity assessment

Entity C determined that it does not invest in assets as a main business activity. The entity does not actively manage the term deposits or regard the level of interest earned on those deposits as a key performance indicator.

Entity C classifies the interest earned on the term deposits and related expenses in the investing category. Accordingly, the interest earned and related expense are presented separately from other income and expenses that are in the operating category.

IE3 Examples 4–6 illustrate how a not-for-profit entity might assess whether it provides financing to customers as a main business activity.

Example 4 – Community micro-finance trust

Entity D is a not-for-profit entity focused on providing low-interest micro-finance loans for the purpose of delivering social benefits and does not provide any other goods or services.

The entity's main expenses are loan administration costs and impairments. Its main income is loan interest. Its main assets are loan receivables.

Specified main business activity assessment

Entity D determines that it provides financing to customers as a main business activity. Management's focus is on identifying appropriate borrowers and monitoring the repayment of principal and interest and, when necessary, taking remedial action on impairments. This involves regularly examining loan budgets and repayment schedules.

Entity D classifies income and expenses arising from its micro-finance loans in the operating category, which would result in the loan interest, and loan administration costs and impairment expenses being presented in the operating category.

Example 5 – Scholarships and loans provided to most students

Entity E is a not-for-profit subsidiary established by a university to provide scholarships to their students who relocate from rural areas. The scholarships cover course fees. When applying for a scholarship, students may also apply for an interest-free loan, with specific repayment terms, to help meet the costs of establishing themselves in their new location. Typically, 4 out of 5 eligible students apply for a loan.

Entity E recognises a receivable for loans provided and a loss allowance for expected credit losses.

Entity E is required to report to its parent university monthly on both scholarships provided and the repayment of loans. In recent times, one of the subsidiary management's key focuses has been on recovering loan repayments from students who have defaulted in order to meet key performance indicators set by its parent.

Specified main business activity assessment

Entity E determines that it provides financing to customers as a main business activity. As part of its monthly report to its parent entity, Entity E assesses the repayment of loans and considers any impairment indications as part of its performance assessments.

Entity E classifies income and expenses arising from its loans in the operating category, which would result in the loan interest,[1] administration costs and expenses relating to the expected credit loss

1 Although the loans are interest free and students are not required to make contractual interest payments, the fair value of the loans on initial recognition is less than the nominal amount advanced. Accordingly, assuming the loans are measured at amortised cost, under the effective interest method in AASB 9 *Financial Instruments* paragraphs 5.4.1 and 5.4.2, an effective interest rate is applied to the carrying amount of the loans, with the initial discount unwound over the lives of the loans and recognised as interest income.

allowances being presented in the operating category. The parent entity makes a separate assessment about categorising these expenses based on its own circumstances.

Example 6 – Scholarships provided to students, with loans provided infrequently

Entity F is a not-for-profit subsidiary established by a university to provide scholarships to their students to cover course fees. When applying for a scholarship, students may also apply for an interest-free loan to help with their living costs.

Due to the demographic of students at the university, students do not typically apply for loans. If loans are provided, Entity F would recognise an expected credit loss allowance at initial recognition because repayments are typically doubtful.

The monthly report to its parent university is prominently focused on the scholarships provided and any new scholarship applications. The non-routine loans are not a focus of its parent.

Specified main business activity assessment

Entity F determines that it does not provide financing to customers as a main business activity because management's focus and reporting is on the scholarships provided and not on lending-related measures.

Entity F classifies income and related expenses from its loans in the financing category, which would result in any interest earned,[2] administration costs and expenses relating to the expected credit loss allowances being presented in the financing category.

2 See footnote 1.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2027-X Implementation Guidance for Not-for-Profit Entities on Categorising Income and Expenses.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's (AASB's) considerations in reaching the conclusions in this Exposure Draft. It sets out the reasons why the Board developed the Exposure Draft, the approach taken to develop it and the bases for the key decisions made. Individual Board members gave greater weight to some factors than to others.

BC2 In January 2025–September 2026, the AASB undertook the *Presentation and Disclosure in Financial Statements by Superannuation and Not-for-Profit Entities* project to determine how AASB 18 *Presentation and Disclosures in Financial Statements* should apply to superannuation entities, not-for-profit (NFP) public and private sector entities preparing Tier 1 general purpose financial statements (GPFS). The AASB published ED 338 *Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation* in October 2025.

BC3 Concurrently, in September 2025, the AASB published ITC 56 *Post-implementation Review of Tier 2 and the Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities and Further Update of Tier 2* as part of its Post-implementation Review of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. In June 2026, the AASB published ED 341 *Updating AASB 1060 to Align the Classification and Presentation Requirements with AASB 18* to seek feedback on proposed amendments to align the classification and presentation requirements in AASB 1060 with those in AASB 18.

BC4 After considering feedback on ED 338 and ED 341, the AASB issued AASB 2026-4 *Amendments to Australian Accounting Standards – Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation* in September 2026 and AASB 2026-6 *Amendments to Australian Accounting Standards – Tier 2 Classification and Presentation* in November 2026. These standards:

(a) require NFP private sector entities and higher education providers to apply the same presentation and classification requirements as for-profit entities (with some minor modifications that clarifies how the principles should be applied in an NFP context); and

(b) provide NFP public sector entities that are not higher education providers accounting policy choices to apply certain presentation and classification requirements. These accounting policy choices were provided to enable the relevant authority in each jurisdiction to continue mandating a consistent basis of presentation for NFP public sector entities within that jurisdiction.

Further standard-setting work on income categorisation

BC5 During the ED 338 and ED 341 outreach, some stakeholders questioned how income recognised under AASB 1058 *Income of Not-for-Profit Entities*, including income associated with capital grants and donated assets, should be categorised under the new classification requirements. Feedback also indicated uncertainty about assessing whether investing in particular types of assets, hereafter referred to investing in assets, or providing financing to customers is a specified main business activity. They noted that ED 338 and ED 341 had not addressed this interaction and suggested that additional guidance may be required.

BC6 After considering this feedback, the AASB concluded that further standard-setting work was justified under the *AASB Not-for-Profit Entity Standard-Setting Framework*. Accordingly, this Exposure Draft proposes implementation guidance to assist NFP entities to:

(a) assess whether investing in assets or providing financing to customers is a main business activity (paragraphs BC18–BC28); and

(b) categorise income recognised under AASB 1058 in the statement of profit or loss (paragraphs BC29–BC52).

Scope of this Exposure Draft

BC7 Given Tier 1 and Tier 2 NFP private sector entities will be required to classify and present their statements of profit or loss in line with the AASB 18 requirements, the AASB decided to seek feedback in this Exposure Draft from both Tier 1 and Tier 2 NFP entities because the proposed guidance addresses transactions commonly undertaken across the NFP sector.

BC8 Although NFP public sector entities that are not higher education providers may elect not to apply the AASB 18 income and expense categorisation requirements, there may be some NFP public sector entities that choose to apply them. The proposals in this Exposure Draft may therefore also be relevant to these entities.

Costs and benefits of applying the new income and expense categorisation requirements

BC9 A significant majority of stakeholders who responded to ED 341 supported Tier 2 entities to apply the same classification and presentation requirements as Tier 1 entities within the same sector. Consistent with this feedback and the AASB's decisions in AASB 2026-4 regarding Tier 1 entities, AASB 2026-6:

(a) requires for-profit Tier 2 entities to apply all AASB 18 classification and presentation requirements without modification;

(b) requires NFP private sector Tier 2 entities and higher education providers to apply all AASB 18 classification and presentation requirements without relief, while also providing guidance to assist in applying certain AASB 18 principles in an NFP context; and

(c) provides NFP public sector Tier 2 entities with the same accounting policy choices as those provided to NFP public sector Tier 1 entities in AASB 2026-4 for applying certain AASB 18 classification and presentation requirements.

BC10 Two stakeholders raised concerns about applying the new classification and presentation requirements to NFP private sector entities:

(a) a regulator of charities recommended that the AASB consider exempting charities, and potentially other private sector NFP entities, from the AASB 18 classification and presentation requirements. The regulator questioned the suitability of those requirements for charities, citing implementation and ongoing costs, limited user demand for the information, and the use of terminology that may not be appropriate in an NFP context; and

(b) a preparer considered that applying AASB 18 to NFP private sector entities could impose a significant burden. The preparer suggested that a single set of Tier 2 reporting requirements may not be appropriate across all sectors and that reporting requirements should be driven by users' information needs.

BC11 The AASB noted that, in responding to ED 338, most stakeholders representing Tier 1 NFP private sector entities indicated that relief from AASB 18 requirements was not necessary. However, these stakeholders considered that additional guidance on applying AASB 18 together with AASB 1058 would be helpful. The AASB also noted that, in one of the three ED 338 roundtables, polling feedback was divided on whether NFP private sector entities (both Tier 1 and Tier 2) should be required to present income and expenses using the AASB 18 categories and related subtotals. No supporting comments were provided during the roundtable to explain the views expressed in polling.

BC12 In September 2026, the AASB sought informal views from the Accounting Research Group organised by Chartered Accountants Australia and New Zealand. Members who commented on the issue did not support providing relief from the new categorisation and presentation requirements for NFP private sector Tier 2 entities. They noted that:

(a) additional implementation guidance, particularly on categorising income and expenses and specified main business activity may be more helpful than exemptions;

(b) AASB 18.6 permits entities to use terminology appropriate to their circumstances, which may address NFP-specific terminology concerns;

(c) implementation issues could be monitored and potentially addressed through future post-implementation activities rather than through exemptions;

(d) the sector's diversity, including some very large NFP entities, may make it difficult to distinguish charities from other NFP entities for relief purposes; and

(e) reporting-burden concerns for smaller charities may be more appropriately addressed through the scope of the Tier 3 reporting framework.

BC13 Having regard to:

(a) the strong stakeholder support for Tier 1 and Tier 2 entities within the same sector applying the same classification and presentation requirements; and

(b) stakeholder feedback supporting alignment of the AASB 1060 classification and presentation requirements with AASB 18 as soon as practicable to permit Tier 2 entities to early adopt the new classification and presentation requirements,

the AASB decided to finalise AASB 2026-6 as described in paragraph BC9 and to seek further feedback through this Exposure Draft on the expected incremental costs and benefits of applying the AASB 18 classification and presentation requirements to NFP entities. Questions 1 and 2 in the Specific Matters for Comment section seeks this feedback, including, where possible, quantitative information distinguishing between one-off implementation costs or cost savings and ongoing costs or cost savings.

BC14 AASB 2026-6 is applicable to Tier 2 NFP entities for annual reporting periods beginning on or after 1 July 2030, with earlier application permitted. The AASB considered the implementation period provides sufficient time to seek further feedback from Tier 2 NFP private sector entities on the costs and benefits of applying the AASB 18 classification and presentation requirements, consider any implementation issues identified through that consultation, and, if necessary, amend the requirements before they become mandatory.

Approaches considered in developing this Exposure Draft

BC15 The AASB decided to propose mandatory NFP implementation guidance in Appendix E *Australian implementation guidance for not-for-profit entities* to AASB 18 and Appendix D *Implementation guidance for not-for-profit entities* to AASB 1060. The guidance would clarify the income categorisation requirements for NFP entities.

BC16 The AASB acknowledged that some matters addressed in this Exposure Draft, including the different notions of operating and investing activities in AASB 18/AASB 1060 and AASB 107 (paragraphs BC41–BC45), and investment earnings when investing in assets is not a main business activity (paragraphs BC46–BC52), could be addressed through non-mandatory guidance outside the Accounting Standards, such as staff FAQs. However, the AASB considered including Appendix E in AASB 18, Appendix D in AASB 1060, and related illustrative examples to be the preferable approach because it provides NFP preparers greater visibility of the guidance, consolidates the NFP-specific guidance in a single location, preserves the readability of the core Standard for for-profit entities, and enables a more comprehensive explanation of the interaction between AASB 18/AASB 1060 and AASB 1058 than would be practicable through non-mandatory guidance outside the Accounting Standards.

BC17 Paragraphs BC18–BC52 refer to the requirements of AASB 18 because the feedback discussed in those paragraphs was received from stakeholders in response to ED 338. This Basis for Conclusions does not include references to the equivalent requirements to be included in AASB 1060 (as amended by AASB 2026-6), however, proposed Appendix D to AASB 1060 refers to the paragraphs that include the equivalent AASB 18 requirements.

Specified main business activities

BC18 AASB 18.49 and 50 require an entity to determine whether investing in particular types of assets or providing financing to customers is a main business activity. If so, the related income and expenses are classified in the operating category. AASB 18.B30–B37 provide guidance for making that assessment.

BC19 When developing IFRS 18 *Presentation and Disclosure in Financial Statements*, the IASB's starting point was that the operating category should include all income and expenses not classified in the investing, financing, discontinued operations or income tax categories. However, it recognised that investing in assets or providing financing to customers may itself be a main business activity and that, in those circumstances, excluding the related income and expenses from the operating category would not faithfully represent operating performance. The IASB noted the following views in the Basis for Conclusions to IFRS 18:

(a) for entities whose main business activity is investing in assets, investment returns are key indicators of operating performance. Classifying those returns in the investing category could leave the operating category consisting largely, or only, of expenses. For example, excluding rental income and fair value gains from the operating profit of an investment property company would not faithfully represent its operations (IFRS 18.BC94–BC102 and BC145); and

(b) for entities whose main business activity is providing financing to customers, the spread between interest income and interest expense is a primary performance metric. Classifying the related interest income and funding costs outside the operating category would undermine the operating profit subtotal (IFRS 18.BC180–BC188).

BC20 The AASB decided that this principle is also relevant to NFP entities. Accordingly, when an NFP entity invests in assets or provides financing to customers as a main business activity, the related income and expenses are classified in the operating category.

NFP entities with specified main business activities

BC21 During the ED 338 outreach, some stakeholders questioned whether NFP entities such as charities can, in principle, invest in assets or provide financing as a main business activity for the purposes of AASB 18, given that Section 5 of the *Charities Act 2013* requires a charity to have only charitable purposes that are for the public benefit.

BC22 The AASB is of the view that having only charitable purposes does not preclude a NFP entity from investing in assets or providing financing as a main business activity for the purposes of AASB 18 and AASB 1060. This is consistent with the IPSASB's preliminary views in its Consultation Paper *Presentation of Financial Statements*, published in April 2026.

NFP entity specified main business activities guidance

BC23 During the ED 338 outreach, stakeholders identified circumstances in which an NFP entity may need to consider whether it has a specified main business activity for the purposes of AASB 18, including where the entity:

(a) provides micro-finance loans for the purpose of delivering social benefits;

(b) does not provide any goods or services, but holds a portfolio of investments, the income from which is distributed as grants to other NFP entities;

(c) does not provide any goods or services, but holds investment properties for the purposes of renting them to the community as part of a social housing arrangement; and

(d) provides goods or services, while also providing financing or investing in assets as part of its operations.

BC24 Some stakeholders expressed concern that similar NFP entities may classify income and expenses inconsistently because of differences in the judgements made by entities and auditors. They noted that AASB 18.B36 refers to AASB 8 *Operating Segments* as a source of evidence for assessing whether investing in assets or providing financing to customers is a main business activity. However, AASB 8 applies only to for-profit entities and there is no equivalent pronouncement for NFP entities.

BC25 The AASB observed that, although AASB 8 does not apply to NFP entities, NFP entities may nevertheless refer to its principles for guidance in applying other Australian Accounting Standards. For example, NFP entities routinely refer to AASB 8 when determining cash generating units for the purposes of applying AASB 136 *Impairment of Assets*.

BC26 Although NFP entities are not prohibited from referring to the segment principles in AASB 8 as additional guidance when assessing whether investing in assets or providing financing to customers is a main business activity, the AASB acknowledged that additional clarification would assist NFP entities in applying the assessment requirements.

BC27 The AASB noted AASB 18.B33–B36 state that evidence that an entity has a main business activity of investing in assets or providing financing to customers may include financial information prepared for either external reporting or internal management purposes. The AASB considered some NFP entities may prepare separate budgets, forecasts, financial performance reports or other disaggregated financial information about investing or financing activities for internal management purposes. Such information may be relevant to determining whether a specified main business activity exists because it may indicate that management separately assesses or monitors the activities as part of assessing the entity's operating performance.

BC28 Accordingly, the AASB added guidance in Appendix E of AASB 18 and Appendix D of AASB 1060 to clarify that, as contemplated by AASB 18.B35(b), separate budgets, forecasts, financial performance reports or other disaggregated financial information may evidence internal monitoring of investing or financing activities. The AASB also developed illustrative examples to illustrate how NFP entities might assess whether they invest in assets or provide financing to customers as a main business activity.

Income recognised under AASB 1058

BC29 AASB 1058 is an Australian-specific NFP Standard that applies to income from transactions outside the scope of AASB 15 *Revenue from Contracts with Customers*, including transactions in which the consideration to acquire an asset is significantly less than fair value principally to enable an NFP entity to further its objectives.

BC30 AASB 1058 requires an NFP entity to recognise income immediately on receiving a transferred asset, including cash, measured at the asset's fair value less any related liability recognised (AASB 1058.10). For a transfer of a financial asset that enables the entity to acquire or construct a recognisable non-financial asset it will control, the entity recognises a liability under AASB 1058.16 and subsequently recognises income as it satisfies the related obligations and reduces that liability. For ease of reference, these transactions are referred to as capital grants in this Basis for Conclusions.

Income arising from the initial recognition of donated cash and donated non-cash assets

BC31 AASB 18.53 and 54 specify the income and expenses classified in the investing category. Almost all stakeholders who commented on ED 338 interpreted those requirements as classifying income arising from the initial recognition of donated cash in the investing category and classifying income arising from donated non-cash assets according to the nature or intended use of the asset. For example, they interpreted 18.53 and 54 as requiring income arising from the donation of shares and investment properties to be classified in the investing category, whereas income arising from donation of property, plant and equipment in the operating category because such assets do not generate a return individually and largely independently of the entity's other resources.

BC32 Nevertheless, stakeholders generally considered that income arising from both cash and non-cash donations should be classified in the operating category of an NFP entity's statement of profit or loss.

BC33 The AASB noted that AASB 18.53 applies to income and expenses arising from holding the assets identified in subparagraphs (a)–(c), rather than income arising from the initial receipt of those assets. The lead in sentence of AASB 18.54 confirms that it applies only to the income and expenses identified in AASB 18.53. Accordingly, income recognised on receipt of donated cash or donated non-cash assets was not intended to be classified in the investing category.

BC34 The AASB decided that income arising from the initial recognition of donated cash and donated non-cash assets should be classified in the operating category. Given the prevalence of such income in the NFP sector and the different interpretations of AASB 18.53 and 54 among Australian stakeholders, the AASB decided to clarify the classification of income arising from the initial recognition of donated assets recognised in accordance with AASB 1058.10 in Appendix E of AASB 18 and Appendix D of AASB 1060.

Income from the unwinding of a liability relating to capital grants

BC35 AASB 1058.16 requires an NFP entity to recognise a liability when it receives a transfer of a financial asset that enables it to acquire or construct a recognisable non-financial asset it will control. Under AASB 1058.17, the entity recognises income and reduces the liability when or as it satisfies its obligations under the transfer.

BC36 In responding to ED 338, some stakeholders considered capital grants are inherently investing in nature. They were concerned that classifying income from the unwinding of a capital grant liability in the operating category could distort reported operating performance and mislead users.

BC37 The AASB considered whether income arising from the reduction of a capital grant liability differs from income recognised on the initial receipt of donated assets to justify classification in a different category.

BC38 In paragraph BC95 of the Basis for Conclusions to AASB 1058, the AASB noted its view that, for a transfer made to enable an entity to acquire or construct a recognisable non-financial asset it will control, the transferor's intention, in substance, is to provide that asset that is acquired or constructed and the cash is the mechanism by which it is acquired or constructed.

BC39 Consistent with that view, the AASB considered that the grant received and the related liability are two aspects of the same transaction under AASB 1058.16 and 17. The liability reflects the recipient's obligation to use the transferred resources in accordance with the grant conditions; it does not arise from a separate financing arrangement or investment activity. Accordingly, the AASB decided that income recognised from the unwinding of a liability relating to a capital grant should be classified in the operating category.

BC40 The AASB also observed that a capital grant would typically be recognised as property, plant and equipment because transfers within the scope of AASB 1058 are received principally to enable an NFP entity to further its objectives (AASB 1058.1). AASB 18.B48–B49 classify income and expenses relating to property, plant

and equipment in the operating category rather than the investing category. The AASB considered this treatment relevant to income arising from the reduction of a capital grant liability.

Different notions of operating and investing activities in AASB 18 and AASB 107

BC41 The AASB observed the view of some stakeholders that capital grants are inherently investing in nature (described in paragraph BC36) may reflect the definition in AASB 107 of investing activities as cash flows from the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

BC42 Some stakeholders may therefore be applying the AASB 107 notion of investing activities when categorising grant income in the statement of profit or loss under AASB 18. Although both Standards use similar terminology, these Standards assign different meanings to 'investing', which may create confusion for NFP entities classifying income associated with capital grants.

BC43 At its June 2026 meeting, the IASB tentatively decided, as part of its *Statement of Cash Flows and Related Matters* project, to propose classifying receipts from government grants recognised under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* that relate to assets as investing cash flows and those that relate to income as operating cash flows.

BC44 The AASB acknowledged that any future IASB proposals may help explain why categorisation outcomes differ between the statement of cash flows and the statement of profit or loss. However, the IASB's decisions are tentative and may change through due process, and IAS 20 and AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* do not apply to Australian NFP entities.

BC45 Accordingly, the IASB's project does not remove the need to clarify the application of AASB 18 to Australian NFP entities. The AASB decided to clarify in Appendix E of AASB 18 and Appendix D of AASB 1060 that the notions of operating, investing and financing activities in AASB 18 are not equivalent to those in AASB 107, thereby addressing potential confusion about the categorisation of income recognised under AASB 1058.

Classifying investment earnings where investing in assets is not a main business activity

BC46 During the ED 338 outreach, some stakeholders supported categorising income and expenses into the operating, investing and financing categories but preferred all investment earnings (including from cash and cash equivalents) used for charitable purposes to be classified in the operating category because the related charitable expenses are in that category. This would depart from AASB 18.53, which requires income generated from cash and cash equivalents and financial assets to be classified in the investing category unless investing in assets is a main business activity.

BC47 The AASB noted that using investment earnings to fund operations does not determine their classification under AASB 18, and the resulting mismatch between investment income and operating expenses is not unique to NFP entities. However, if a majority or all of an NFP entity's investment earnings fund its charitable activities, that may indicate investing in assets is a main business activity, in which case the related income and expenses are classified in the operating category.

BC48 Some stakeholders noted that grants may be received well before the related expenditure and may require both the principal and any interest earned to be used for a specified operating or charitable purpose. Although the interest may be accounted for as part of the grant arrangement under AASB 15 *Revenue from Contracts with Customers*, AASB 18 could result in that interest being classified in the investing category while the underlying grant income is classified in the operating category. Stakeholders considered that this outcome may not provide useful information to users, including the grantor.

BC49 Those stakeholders considered that such interest is, in substance, part of the funding provided by the grantor rather than a return from the entity's discretionary investment activities and should therefore be classified in the operating category.

BC50 The AASB considered that the concerns in paragraphs BC48–BC49 could be addressed through disclosures explaining grants received in advance, grantor-imposed restrictions and the classification of related interest income in the statement of profit or loss and statement of cash flows. Consistent with AASB 1058.37 and feedback from the Post-implementation Review of Income of Not-for-Profit Entities, such disclosures would help users understand the relationship between the grant funding and related interest while preserving consistent application of AASB 18. NFP entities may also apply AASB 18.20 and 43 to provide additional disclosures and clear line-item descriptions.

BC51 The AASB decided that there is no conceptual basis to depart from AASB 18 for investment income earned on donated financial assets, even when the income must be applied to operations. Such income is therefore classified in the investing category unless investing in assets is a main business activity.

BC52 The AASB nevertheless acknowledged stakeholder concerns about the relationship between restricted investment income and the activities it funds. It therefore decided to propose including guidance in Appendix E of AASB 18 and Appendix D of AASB 1060 to provide clarification and encourage NFP entities to consider disclosures about restrictions on funds and the relationship between investment income and related charitable expenditure.

Effective date

BC53 When issuing AASB 18, the AASB deferred its effective date for Tier 1 NFP entities by one year, to annual periods beginning on or after 1 January 2028, with earlier application permitted. This allowed time for further due process on potential NFP modifications and provided an implementation period comparable to that available to for-profit entities preparing Tier 1 GPFS.

BC54 When issuing AASB 2026-4, the AASB concluded that the one year deferral was sufficient to implement AASB 18 in light of the amendments in AASB 2026-4 that either provide relief from particular requirements or clarify their application to NFP entities.

BC55 When issuing AASB 2026-6, the AASB concluded that the amendments to AASB 1060 would be effective for annual periods beginning on or after 1 July 2030, with earlier application permitted.

BC56 For consistency, the AASB proposes that the additional NFP guidance in this Exposure Draft apply from the same effective dates as the related requirements for Tier 1 and Tier 2 NFP entities. This is because the proposals clarify the application of AASB 18 and AASB 1060 rather than introduce new requirements. Nevertheless, the AASB decided to include Q8 and Q9 in the Specific Matters for Comment of this Exposure Draft to seek stakeholders' views on whether those effective dates remain appropriate.