



Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Collins Place
Level 25, 35 Collins Street
Melbourne VIC 3000
GPO Box 5099 Melbourne VIC 3001
Australia

The Chair
Australian Accounting Standards Board
PO BOX 204
Collins Street West
Melbourne VIC 8007

13 March 2026

Dear Sir

ED 338 APPLICATION OF AASB 18 AND AASB 107 BY SUPERANNUATION AND NOT-FOR-PROFIT ENTITIES AND OPERATING CASH FLOW RECONCILIATION

Thank you for the opportunity to comment on the Board's proposals in the Exposure Draft 338 including the relief for superannuation entities and not-for-profit (NFP) public sector entities from applying certain requirements contained in AASB 18 *Presentation and Disclosure in Financial Statements*.

In summary, we agree with the proposals regarding superannuation entities and NFP public sector entities. Regarding NFP public sector entities specifically, we also agree with the Board's plan, in line with its standard-setting policies, to consider the outcome of the IPSASB project on the IFRS 18 implications for public sector entities. Please refer to Appendix 1 for our comments on your specific matters for comment.

However, we note that NFP private sector entities may not yet have fully considered the practical implications for their financial reporting systems of applying AASB 18 in full, particularly regarding:

- Determining whether they have specified main business activities
- Classifying income and expenses into the five categories, and
- The implications for the classification of grants (both operating and capital grants).

We are concerned that preparers and auditors of NFP private sector financial statements might currently be interpreting AASB 18 through the lens of what they consider to be operating income and expenses, for example as those arising from ordinary or principal activities of the NFP entity, rather than as a residual category after applying all the requirements in paragraphs 47-66 of AASB 18. Such an approach would ultimately produce profit or loss statements that are not comparable between entities in the NFP private sector.

We recommend that the Board consider further engagement and educational sessions with NFP private sector stakeholders to facilitate a more consistent understanding of the potential implications of AASB 18 across NFP private sector stakeholders, thereby improving the quality of dialogue between the AASB and these constituents. Having a more consistent level of understanding of AASB 18 across NFP private sector stakeholders should assist in establishing whether the AASB should include application guidance,



illustrative examples and/or Australian-specific amendments to improve application consistency on adoption of AASB 18 by NFP private sector entities.

Please refer to Appendix 2 for our detailed comments on what we regard as some of the potential NFP-specific application issues that are likely to arise on adoption of AASB 18 by these entities.

If you have any comments regarding this request, please do not hesitate to contact me.

Yours faithfully

DocuSigned by:
Aletta Boshoff

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Aletta Boshoff

Partner, Advisory

National Leader, IFRS & Corporate Reporting

National Leader, Sustainability Reporting



APPENDIX 1 - Specific matters for comment

Operating cash flow reconciliation

Question 1

AASB 1054.16 requires an entity that uses the direct method to present its statement of cash flows to disclose in the financial statements a reconciliation of the net cash flow from operating activities to the profit or loss total presented in the statement of profit or loss. AASB 18 modified the indirect method of presenting cash flows set out in AASB 107 to require an entity to adjust the operating profit or loss subtotal presented in the statement of profit or loss, instead of the profit or loss total, to report cash flows from operating activities.

As noted in paragraphs BC95-BC97 in the Basis for Conclusions to this Exposure Draft, to be consistent with the revision made to AASB 107 by AASB 18, the AASB is proposing to modify AASB 1054.16 to require an entity to adjust the operating profit or loss subtotal in disclosing the operating cash flow reconciliation, if the entity presents that subtotal in the statement of profit or loss in accordance with AASB 18.69(a).

In respect to entities preparing Tier 1 GPFS, other than superannuation entities and NFP public sector entities, do you agree with the proposed paragraph 16(a) in AASB 1054 that an entity should provide a reconciliation of the net cash flow from operating activities to the operating profit or loss subtotal in the statement of profit or loss, if the entity presents that subtotal in accordance with AASB 18.69(a)? Please explain your reasons.

BDO Comment - Question 1

We agree with this proposal.

Question 2

AASB 1039.21 mentions the fact that AASB 1039 does not require an entity to provide a reconciliation of the net cash flow from operating activities. The AASB is proposing to amend AASB 1039.21 to be consistent with the proposed amendments made to AASB 1054.16.

Do you agree with the proposed amendments to AASB 1039.21? Please explain your reasons

BDO Comment - Question 2

We agree with this proposal.



Superannuation entities - Line items to be presented in the primary financial statements

Question 3

AASB 18.23 states that “An entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. This is the case even if Australian Accounting Standards contain a list of specific required line items or describe the line items as minimum requirements ...”.

AASB 1056.9 and AASB 1056.11 require a superannuation entity to present specific line items in the income statement and in the statement of changes in member benefits. However, under the general principle in AASB 18.23, a superannuation entity need not present separately a line item in those statements if the entity determines that doing so is not necessary for the statement to provide a useful structured summary. As noted in paragraphs BC16-BC20, the AASB observed the importance for financial statements to be comparable among superannuation funds and applying the judgement required by AASB 18.23 could potentially lead to inconsistencies. The AASB decided to propose adding paragraphs Aus23.1(a) and AusB8.1(a) to AASB 18 to specify that a superannuation entity should not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary.

Do you agree with the proposed paragraph Aus23.1(a) and AusB8.1(a) in AASB 18 that a superannuation entity should not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary; and therefore, would be required to present all applicable line items in the income statement and in the statement of changes in member benefits as required by AASB 1056.9 and AASB 1056.11? Please explain your reasons.

BDO Comment - Question 3

We agree with the aim of this proposal because it will facilitate ongoing comparability between superannuation entity financial statements. However, we recommend clarifying in Aus23.1 and AusB8.1 that a superannuation entity “should not judge” the need of separate presentation of the line items to ensure the aim of the Board described above is achieved. The current proposed wording of paragraphs Aus23.1 and AusB8.1 would not prevent a superannuation entity from choosing to apply paragraph 23.



Superannuation entities - Statement of profit or loss presentation

Question 4

AASB 18.47 requires an entity to classify income and expenses into specific categories. As noted in paragraphs BC21-BC23, the AASB noted that those categories are unlikely to provide additional information to users of a superannuation entity's GPFS. Therefore, the AASB is proposing to add paragraph Aus46.1(a) to AASB 18 and paragraphs 10A and 22A to AASB 1056 to specify that a superannuation entity should not classify income and expenses into the operating, investing, financing and discontinued operations categories in its statement of profit or loss, and should treat references in AASB 18 to 'operating expenses' as expenses presented in the statement of profit or loss.

Do you agree with the proposed paragraph Aus46.1(a) in AASB 18 and paragraphs 10A and 22A in AASB 1056? Please explain your reasons.

BDO Comment - Question

We agree with this proposal. However, we believe that the proposed paragraph Aus46.1(a) and (b) would be better placed as Aus47.1 as it would then follow the requirements for the five specified income and expense categories. Any cross-references in other paragraphs to Aus46.1 will need to be amended accordingly.

Superannuation entities - Presentation of expenses

Question 5

AASB 18.78 requires an entity to classify and present operating-category expenses in line items in a way that provides the most useful structured summary of its expenses, considering the matters set out in AASB 18.B80, using one or both of these characteristics: the nature of expenses; or the function of the expenses within the entity.

AASB 1056.22 requires a superannuation entity to disclose information to provide users with a basis for understanding the nature of expenses. As noted in paragraphs BC24-BC27, the AASB considered that given the importance of GPFS of superannuation entities being comparable, the AASB is proposing to add paragraph Aus78.1(a) to AASB 18 to specify that a superannuation entity should classify and present expenses in accordance with AASB 1056 and should not apply paragraphs AASB 18.78 or B80-B82.

Do you agree with the proposed paragraph Aus78.1(a) in AASB 18? Please explain your reasons.

BDO Comment - Question 5

We agree with this proposal because it will facilitate ongoing comparability between superannuation fund financial statements.



Superannuation entities - Cash flow classification - dividends received and interest paid and received

Question 6

As noted in paragraphs BC28-BC32, under AASB 107.34B of the revised AASB 107 (i.e. the version of AASB 107 incorporating AASB 18 amendments), a superannuation entity would be required to classify dividends received and interest paid and received into a single category for each item, and classify cash flows in the same category as the income statement or make an accounting policy choice if associated income and expenses are recognised in more than one income statement category.

The AASB's proposals to not require a superannuation entity to classify income and expenses into the AASB 18 income statement categories means AASB 107.34B would not provide a basis for superannuation entities to classify these items in the statement of cash flows. Accordingly, the AASB is proposing to add paragraph Aus34D.1 to AASB 107 to retain the current accounting policy choice to permit a superannuation entity to continue electing to classify these cash flows as operating cash flows. The AASB is also proposing to add paragraph Aus6.1 to AASB 107 to specify that, in respect to superannuation entities (and NFP public sector entities) that elect to classify the receipt of interest and dividends as operating activities, investing cash flows do not include the receipt of interest and dividends as described in paragraphs 34A-34D of the revised AASB 107.

Do you agree with the proposed paragraphs Aus6.1 and Aus34D.1 in AASB 107 in respect to superannuation entities? Please explain your reasons.

BDO Comment - Question 6

We agree with this proposal.

Superannuation entities - Operating cash flow reconciliation

Question 7

As noted in paragraphs BC33-BC34, consistent with the AASB's proposals to require a superannuation entity not to present the 'operating profit or loss' subtotal in its income statement, the AASB is proposing to add paragraph Aus20.2 to AASB 107 to specify that when reconciling cash flows from operating activities, a superannuation entity shall adjust its 'profit or loss' total.

The AASB is also proposing to add paragraph 16(b) to AASB 1054 to specify that the 'profit or loss' total would be used as the starting point for reconciling net cash flow from operating activities when the entity does not present the 'operating profit or loss' subtotal in the statement of profit or loss.

Do you agree with the proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054 in respect to superannuation entities? Please explain your reasons.

BDO Comment - Question 7

We agree with this proposal.



Superannuation entities - Statement of changes in member benefits reconciliation

Question 8

As noted in paragraphs BC35-BC36, the AASB received feedback from a stakeholder questioning whether the statement of changes in member benefits should be treated in the same way as other primary financial statements. The AASB is proposing to add paragraph 12A to AASB 1056 to specify that a superannuation entity should treat its statement of changes in member benefits (and its comparative information) as a primary financial statement for the purposes of applying the requirements set out in AASB 18, including comparative information, labelling, and aggregation and disaggregation.

Do you agree with the proposed paragraph 12A in AASB 1056? Please explain your reasons.

BDO Comment - Question 8

We agree with this proposal.

Superannuation entities - Aggregation and disaggregation

Question 9

As noted in paragraphs BC37-BC38, the AASB is of the view that the requirements of AASB 1056 and AASB 18 with respect to aggregating and disaggregating line items and disclosures are not inconsistent and decided that no modifications are needed in this regard. Therefore, the aggregation and disaggregation requirements in AASB 18 would apply in the context of the more specific AASB 1056.32 requirement for superannuation entities.

Do you agree that no modifications are needed for superannuation entities with respect to aggregation and disaggregation requirements set out in AASB 18? Please explain your reasons. If you consider modifications are needed, please describe the changes and explain why they are necessary.

BDO Comment - Question 9

We agree with this proposal.

Superannuation entities - Management-defined performance measures

Question 10

As noted in paragraphs BC39-BC40, all superannuation entity stakeholders who responded to the targeted outreach did not identify any subtotals of income and expenses a superannuation entity uses that would meet the definition of a management-defined performance measure (MPM), and the AASB 18 disclosure requirements relating to MPMs would not be onerous. The AASB decided that no modifications to the MPM disclosure requirements are necessary for superannuation entities.



Do you agree that no modifications are needed for superannuation entities with respect to the MPM disclosure requirements? Please explain your reasons. If you consider modifications are needed, please describe the changes and explain why they are necessary.

BDO Comment - Question 10

We agree with this proposal.

Superannuation entities - Effective date

Question 11

The AASB is proposing that the modifications to AASB 18, AASB 107, AASB 1039, AASB 1054 and AASB 1056 proposed to be made in this Exposure Draft should be applied when the entity applies AASB 18. AASB 18 applies to superannuation entities for periods beginning on or after 1 January 2028 with early application permitted, which is one year after the mandatory effective date for other for-profit entities.

Do you agree that superannuation entities should be required to apply AASB 18 and the modifications proposed to be made in the Exposure Draft for periods beginning on or after 1 January 2028? If not, which date do you consider that superannuation entities should be required to apply AASB 18? Please explain your reasons.

BDO Comment - Question 11

We agree with this proposal.

NFP private sector entities - NFP-specific guidance

As noted in paragraphs BC41-BC42, the AASB decided to propose adding the following paragraphs to AASB 18 to provide guidance for NFP entities preparing Tier 1 GPFS:

- (a) paragraphs Aus9.1 and AusB5.1 - to require an NFP entity to consider the common information needs of users of GPFS of NFP entities described in the *Conceptual Framework for Financial Reporting*; and
- (b) paragraph AusB80.1 - to require an NFP entity, when presenting expenses, to consider what line items provide the most useful information to users of financial statements about the entity's "operations or main activities", which is broader than considering "the main components or drivers of the entity's profitability" required by AASB 18.B80.

Question 12

In respect to NFP private sector entities and universities preparing Tier 1 GPFS, do you agree with the proposed paragraphs Aus9.1 and AusB5.1 in AASB 18 to require these entities to consider the common information needs of users of GPFS of NFP entities described in the Conceptual Framework for Financial Reporting? Please explain your reasons.

BDO Comment - Question 12

We agree with this proposal.



Question 13

Do you agree with the proposed paragraph AusB80.1 in AASB 18 that NFP private sector entities and universities preparing Tier 1 GPFS should consider what line items provide the most useful information to users of financial statements about the entity’s “operations or main activities”, which is broader than considering “the main components or drivers of the entity’s profitability” required by AASB 18.B80? Please explain your reasons.

BDO Comment - Question 13

We agree with this proposal.

Question 14

Other than the proposals in Q12-Q13, the AASB did not identify any necessary modifications from AASB 18 or the revised AASB 107 for NFP private sector entities or universities preparing Tier 1 GPFS. Do you have any comments on the suitability of applying AASB 18 or the revised AASB 107 to these entities? If you consider further modifications are needed, please explain your reasons.

BDO Comment - Question 14

Please refer to our detailed comments in Appendix 2.



NFP private sector entities - Effective date

Question 15

The AASB is proposing that the modifications to AASB 18, AASB 107, AASB 1039 and AASB 1054 proposed to be made in this Exposure Draft should be applied when the entity applies AASB 18. AASB 18 applies to NFP private sector entities and universities preparing Tier 1 GPFS for periods beginning on or after 1 January 2028 with early application permitted, which is one year after the mandatory effective date for for-profit entities

Do you agree that NFP private sector entities and universities preparing Tier 1 GPFS should be required to apply AASB 18 and the modifications proposed to be made in the Exposure Draft for periods beginning on or after 1 January 2028? If not, which date do you consider that these entities should be required to apply AASB 18? Please explain your reasons.

BDO Comment - Question 15

We agree with this proposal in the context of the current proposals. However, if the AASB decides that further standard-setting is required to address any NFP private sector-specific implications of AASB 18 (such as the matters raised in Appendix 2 in response to Question 14), this may necessitate deferring the mandatory application date beyond 2028.

NFP public sector entities, including governments - Statement of profit or loss presentation

Question 16

AASB 18.47 requires an entity to classify income and expenses into specific categories. As noted in paragraph BC51-BC55, stakeholder feedback indicated that those categories are unlikely to provide additional information to users of an NFP public sector entity's GPFS. Therefore, the AASB is proposing to add paragraph Aus46.1(b) to AASB 18 to provide an accounting policy choice for NFP public sector entities to select to not classify income and expenses into the operating, investing and financing categories in the statement of profit or loss.

Do you agree with the proposed paragraph Aus46.1(b) in AASB 18? Please explain your reasons.

BDO Comment - Question 16

We agree with the aim of this proposal. However, we believe that the proposed paragraph Aus46.1(a) and (b) would be better placed as Aus47.1 as it would then follow the requirements for the five specified income and expense categories. We also believe that the accounting policy choice should be constrained to ensure that the presentation choice results in the information that is reliable and more relevant, consistent with the relevant requirements in AASB 108 and the limitations proposed to be adopted for the presentation of expenses based on AASB 101.99 in Question 17 below.



NFP public sector entities, including governments - Presentation of expenses

Question 17

AASB 18.78 requires an entity to classify and present operating-category expenses in line items in a way that provides the most useful structured summary of its expenses, considering the matters set out in AASB 18.B80, using one or both of these characteristics: the nature of expenses; or the function of the expenses within the entity. This is different to the requirements in AASB 101.99, which requires an entity to present expenses by either their nature or function.

As noted in paragraphs BC56-BC59, at a practical level, given expenses are a key focus area for users of public sector GPFS, the AASB considered that it is important to maintain consistent reporting to promote comparability. The AASB is proposing to add paragraph Aus78.1(b) to provide an accounting policy choice for an NFP public sector entity to elect to classify and present expenses in line items in the statement of profit or loss based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant (consistent with the current requirements in AASB 101.99), instead of applying AASB 18.78 and B80-B82. This accounting policy choice would not prohibit a Treasury Office and the Office of Local Government from mandating the appropriate basis for presenting expenses to achieve consistency in reporting.

Do you agree with the proposed paragraph Aus78.1(b) in AASB 18? Please explain your reasons.

BDO Comment - Question 17

We agree with this proposal.

NFP public sector entities, including governments - NFP-specific guidance

As noted in paragraphs BC41-BC42, the AASB decided to propose adding the following paragraphs to AASB 18 to provide guidance for NFP entities preparing Tier 1 GPFS, including NFP public sector entities:

(c) paragraphs Aus9.1 and AusB5.1 - to require an NFP entity to consider the common information needs of users of GPFS of NFP entities described in the *Conceptual Framework for Financial Reporting*; and

(d) paragraph AusB80.1 - to require an NFP entity, when presenting expenses, to consider what line items provide the most useful information to users of financial statements about the entity's "operations or main activities", which is broader than considering "the main components or drivers of the entity's profitability" required by AASB 18. B80.

Question 18

In respect to NFP public sector entities preparing Tier 1 GPFS, do you agree with the proposed paragraphs Aus9.1 and AusB5.1 in AASB 18 to require these entities to consider the common information needs of users of GPFS of NFP entities described in the Conceptual Framework for Financial Reporting? Please explain your reasons.

BDO Comment - Question 18

We agree with this proposal.



Question 19

Do you agree with the proposed paragraph AusB80.1 in AASB 18 that NFP public sector entities preparing Tier 1 GPFS should consider what line items provide the most useful information to users of financial statements about the entity's "operations or main activities", which is broader than considering "the main components or drivers of the entity's profitability" required by AASB 18.B80? Please explain your reasons.

BDO Comment - Question 19

We agree with this proposal.

NFP public sector entities, including governments - Relief from disclosing information about management-defined performance measures (MPMs)

Question 20

As noted in paragraphs BC60-BC62, stakeholder feedback indicated that NFP public sector entities publish a broad range of written communications about their performance and it would be difficult for public sector auditors to provide reasonable assurance that the MPMs are complete. Given that most subtotals used in those documents are well-defined or well-understood by users, the AASB considered that the cost and effort would outweigh the benefits of requiring NFP public sector entities to identify all MPMs and to disclose information about MPMs.

The AASB is proposing to add paragraph Aus117.1 to AASB 18 to provide an accounting policy choice for NFP public sector entities to elect to not identify and disclose information about MPMs.

Do you agree with the proposed paragraph Aus117.1 in AASB 18? Please explain your reasons.

BDO Comment - Question 20

We agree with this proposal.

NFP public sector entities, including governments - Cash flow classification - dividends received and interest paid and received

Question 21

As noted in paragraphs BC63-BC69, the AASB decided to propose adding paragraph Aus34D.1 to AASB 107 to retain the current accounting policy choice for NFP public sector entities to elect to classify dividends received and interest paid and received as operating cash flows. The AASB also proposes adding paragraph Aus6.1 to AASB 107 to specify that, in respect of NFP public sector entities that elect to classify the receipt of interest and dividends as operating activities, investing cash flows do not include the receipt of interest and dividends as described in paragraphs 34A-34D of the revised AASB 107.

The AASB noted that currently NFP public sector entities classify dividends paid as financing cash flows and dividends received and interest paid and received as operating cash flows, which is consistent with the ABS GFS Manual.



Do you agree with the proposed paragraphs Aus6.1 and Aus34D.1 in AASB 107 in respect to NFP public sector entities? Please explain your reasons.

BDO Comment - Question 21

We agree with this proposal.

NFP public sector entities, including governments - Operating cash flow reconciliation

Question 22

As noted in paragraphs BC70-BC71, consistent with the AASB’s proposals to provide an accounting policy choice for NFP public sector entities to elect to not present the ‘operating profit or loss’ subtotal in the statement of profit or loss, the AASB proposes adding paragraph Aus20.2 to AASB 107 to specify that when reconciling cash flows from operating activities such an entity electing to not present the ‘operating profit or loss’ subtotal shall adjust its ‘profit or loss’ total. The AASB also proposes adding paragraph 16(b) to AASB 1054 to specify that the ‘profit or loss’ total shall be used as the starting point for reconciling net cash flow from operating activities when the entity does not present the ‘operating profit or loss’ subtotal in the statement of profit or loss.

Do you agree with the proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054 in respect to NFP public sector entities? Please explain your reasons.

BDO Comment - Question 22

We agree with this proposal.

NFP public sector entities, including governments - Aggregation and disaggregation

Question 23

As noted in paragraphs BC72-BC75, the AASB received limited feedback from stakeholders during the targeted outreach on the AASB 18 requirements relating to aggregation and disaggregation, and the feedback did not indicate a specific reason to modify the requirements for NFP public sector entities. Therefore, the AASB decided that the requirements should be applied by these entities.

Do you agree that no modifications are needed for NFP public sector entities with respect to aggregation and disaggregation requirements set out in AASB 18? Please explain your reasons. If you consider modifications are needed, please describe the changes and explain why they are necessary.

BDO Comment - Question 23

We agree with this proposal.



NFP public sector entities, including governments - Effective date

Question 24

The AASB is proposing that the modifications to AASB 18, AASB 107, AASB 1039, AASB 1054 and AASB 1049 proposed to be made in this Exposure Draft should be applied when the entity applies AASB 18. AASB 18 applies to NFP public sector entities, including governments, for periods beginning on or after 1 January 2028 with early application permitted, which is one year after the mandatory effective date for for-profit entities.

Do you agree that NFP public sector entities, including governments, should be required to apply AASB 18 and the modifications proposed to be made in the Exposure Draft for periods beginning on or after 1 January 2028? If not, which date do you consider these entities should be required to apply AASB 18?

BDO Comment - Question 24

We agree with this proposal.

NFP public sector entities, including governments - Statement of changes in equity

Question 25

As noted in paragraph BC87, a stakeholder commented as part of the Financial Reporting Council's (FRC's) independent Post-implementation Review (PIR) of AASB 1049, that the mandatory requirement to present a statement of changes in equity in the GPFS of an NFP public sector entity should be removed in circumstances where it is redundant, but did not indicate a public-sector-specific reason.

Have you identified a public-sector-specific reason that would warrant an NFP public sector entity, or a government, to depart from the AASB 18 requirement to present a statement of changes in equity in their Tier 1 GPFS? If so, please explain.

BDO Comment - Question 25

No.

Whole of government and GGS financial statements - Line items to be presented in the primary financial statements

Question 26

AASB 1049 requires a government to present specific subtotals (key fiscal aggregates) in the income statement of the whole of government and GGS financial statements. As noted in paragraphs BC76-BC79, the feedback from the FRC's PIR of AASB 1049 noted that key fiscal aggregates provide important information to users and for comparability of governments' financial performance. Accordingly, the AASB decided that governments should continue presenting key fiscal aggregates in accordance with AASB 1049.



The AASB proposes adding paragraphs Aus23.1(b) and AusB8.1(b) to AASB 18 to specify that a government does not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary.

Do you agree with the proposed paragraphs Aus23.1(b) and AusB8.1(b) in AASB 18 that a government should not judge whether to present line items in the primary financial statements based on whether they are necessary for the statement to provide a useful structured summary - and therefore would be required to present all applicable line items and subtotals in accordance with AASB 1049? Please explain your reasons

BDO Comment - Question 26

We agree with the aim of this proposal. However, similarly to our response in Question 3, we recommend clarifying in Aus.23.1 and AusB8.1(b) that a government “should not judge” the need of separate presentation of the line items to ensure the aim of the Board described above is achieved as the proposed draft paragraph would not prevent the government from choosing to apply paragraph 23.

Whole of government and GGS financial statements - Amendments to AASB 1049 arising from the FRC’s PIR of AASB 1049

As noted in paragraph BC86, in response to the feedback the FRC received on its PIR of AASB 1049, the AASB decided to propose amending the following paragraphs in AASB 1049 to align with recent Accounting Standards:

- (a) AASB 1049.14(f) - to explain the effect of AASB 1049.13 on the application of the accounting policy choice provided in the proposed paragraph Aus34D.1 in AASB 107 regarding the classification of cash flows from interest paid and received and dividends received;
- (b) AASB 1049.14(g) - to refer to AASB 1058 Income of Not-for-Profit Entities instead of AASB 1004 Contributions because AASB 1058 and AASB 15 Revenue from Contracts with Customers supersede the income recognition requirements previously contained in AASB 1004; and
- (c) AASB 1049.31(a)(ii) - to refer to the phrase ‘fair value through other comprehensive income’ instead of ‘available-for-sale’ to align with the terminology in AASB 9 Financial Instruments.

Question 27

Do you agree with amending AASB 1049.14(f) to explain the effect of AASB 1049.13 on the application of the accounting policy choice provided in the proposed paragraph Aus34D.1 in AASB 107 regarding the classification of cash flows from interest paid and received and dividends received? Please explain your reasons.

BDO Comment - Question 27

We agree with this proposal.



Question 28

Do you agree with updating the references to Standards and terminology in AASB 1049.14(g) and 31(a)(ii)? Please explain your reasons.

BDO Comment - Question 28

We agree with this proposal.

For-profit public sector entities

AASB 18 amended AASB 107 to require entities that do not either invest in assets or provide financing to customers as a main business activity to classify:

- (a) dividends paid as financing cash flows (AASB 107.33A);
- (b) interest paid as financing cash flows (AASB 107.34A(a));
- (c) dividends received as investing cash flows (AASB 107.34A(b)); and
- (d) interest received as investing cash flows (AASB 107.34A(b)).

As noted in paragraphs BC93-BC94, the AASB considered that the stakeholder feedback received to date did not indicate a public-sector-specific reason for for-profit public sector entities to depart from the revised AASB 107 or from AASB 18.

Question 29

Do you consider it would be more important for the cash flow statements of for-profit public sector entities to be comparable with for-profit private sector entities or NFP public sector entities? Please explain why.

BDO Comment - Question 29

We consider it to be more important for the cash flows statements of for-profit public sector entities to be comparable with for-profit private sector entities. We believe this is in line with the *AASB For-Profit Entity Standard-Setting Framework* including transaction neutrality principle.

Question 30

Please explain how important it is for for-profit public sector entities to have consistent classification of dividend and interest transactions between the income statement and the cash flow statement (noting that the AASB has decided that these entities categorise income and expenses in accordance with AASB 18)?

BDO Comment - Question 30

Similarly to our response in Question 29 above, if for-profit public sector entities must categorise income and expenses into the five categories, in our view, the requirements for classifying interest received and paid and dividends received in the cash flow statement should be the same as for other for-profit entities.



Question 31

Assuming the AASB's proposals are implemented and dividends received and interest paid and received will continue to be classified as operating cash flows in the whole of government and GGS financial statements, please outline the cost and effort that would be required to adjust different cash flow classifications of for-profit public sector entities to facilitate consolidation into the whole of government financial statements and how they compare with the benefits of complying with the revised requirements of AASB 107?

BDO Comment - Question 31

No comment.



APPENDIX 2 - Comments regarding application issues for NFP private sector entities

Determining whether they have specified main business activities

Most private sector NFPs are likely to identify their main business activity as providing goods or services to assist in achieving their charitable or other NFP objectives and will have no specified main business activities of investing in assets or providing financing to customers.

However, some private sector NFPs may engage in specified main business activities as all, or a part of, their activities. Given these entities may not use specific subtotals or apply segment reporting under AASB 8 *Operating Segments*, we recommend that the Board provide NFP guidance or examples to illustrate circumstances where entities may be considered to have specified main business activities.

Some examples may include (but with the Board's outreach the list could be expanded noting the Board has received only limited feedback from NFP private sector prior to the release of the Exposure Draft):

- (a) An entity providing micro-finance loans for the purpose of providing a social benefit
- (b) An entity that does not provide any goods or services itself, but holds a portfolio of investments (not equity accounted investments) that derives income, which is then distributed as grants to other NFPs
- (c) Similar to (b) above, except that the entity holds investment properties rather than investments, which it rents to tenants as part of a community housing arrangement
- (d) Entities providing goods or services but also providing financing or investing in assets as part of its operations.

Classifying income and expenses into the five categories

Given our earlier comment about our concern that preparers and auditors of NFP private sector financial statements might interpret AASB 18 through the lens of what they consider to be operating income and expenses, for example as those arising from ordinary or principal activities of the NFP private sector entity, rather than as a residual category after applying all the requirements in paragraphs 47-66, we recommend a NFP private sector-specific guidance, whether in the form of 'Aus' paragraph or otherwise, be added after paragraph 52 as Aus52 to emphasise that the operating category is a residual category under AASB 18 unless the Board would consider a departure from IFRS 18 is required in this regard for NFP private sector entities. This is particularly important given that a literal reading of the first sentence of paragraph B42 could result in preparers not following the residual approach.

In addition to the additional NFP guidance recommended above for specified main business activities, it may be useful, for each example above, to explain how the income and expense classification changes, depending on whether the entity has a specified main business activity and, if so, whether the entity has one or both of the specified main business activities. For instance, with regards to:



- (a) Example (a), if the provision of micro-finance is considered a specified main business activity, interest income (if any) and interest expense on related borrowings (if any) are classified in the operating category. However, if this is not considered a specified main business activity, interest income (if any) is classified in the investing category and interest expense on related borrowings is classified in the financing category.
- (b) Examples (b) and (c), it may be the case that the NFP private sector entities consider their investment activities to be their specified main business activities, in which case the entities will classify all of its investment income, grant distributions and operating costs in the operating category. However, if it is not a specified main business activity, investment income is classified in the investing category and grant distributions and operating expense are classified in the operating category.

The implications for the classification of grants (both operating and capital grants).

From discussions with NFP private sector clients, there is a desire for income and expenses that relate to what they regard as their operating (being seen as the principal or ordinary) activities be classified in the operating category and any investment income in the investing category. From their perspective, this presentation facilitates a true operating result that is not distorted by investment income. This separate investing classification will be possible for NFPs without specified main business activities.

However, we identified a number of instances where we believe the expectation of NFP private sector entities might be to present operating and capital grants in the operating category (which is consistent for example with [ACNC guidance](#)), whereas application of AASB 18 would arguably provide a different result.

Cash grants (operating and capital)

There is a view that in the absence of a specified main business activity, the application of AASB 18 to cash operating and capital grants will result in these being presented in the investing category. This is because AASB 18, paragraphs 53(b) and para 54(b) require any income resulting from the initial measurement of cash to be recognised in the investing category (emphasis added):

‘Except as required by paragraphs 55-58 for an entity that has a specified main business activity, an entity shall classify in the investing category income and expenses specified in paragraph 54 from:

- (a) investments in associates, joint ventures and unconsolidated subsidiaries (see paragraphs B43-B44);
- (b) cash and cash equivalents; and
- (c) other assets if they generate a return individually and largely independently of the entity’s other resources (see paragraphs B45-B49).’

AASB 18, paragraph 53



'The income and expenses from the assets identified in paragraph 53 that an entity shall classify in the investing category comprise the amounts included in the statement of profit or loss for (see paragraph B47):

(a) the income generated by the assets.

(b) the income and expenses that arise from the initial and subsequent measurement of the assets, including on derecognition of the assets; and

(c) the incremental expenses directly attributable to the acquisition and disposal of the assets - for example, transaction costs and costs to sell the assets.'

AASB 18, paragraph 54

Capital grants of investment property or investments

The [ACNC guidance](#) includes in kind donations as part of revenue. Applying paragraph 53(c) and 54(b), income from recognising capital grants of investment property assets or investments that meet the criteria in paragraph 53(c) will be recognised in the investing category. We understand many NFP entities would consider this to be 'operating' as the income arises as a result of their ordinary activities.

Further, cash grants to reimburse operating expenses already incurred will also be recognised in the investing category, while the related expenses are shown in the operating category. We note this issue may also apply to for-profit entities recognising a similar grant under AASB 120 that wish to reflect this as a reduction in the related expenses previously recognised in the operating category.

Capital grants of property, plant and equipment (PPE)

Income from these capital grants will be recognised as part of the operating category (paragraph B48(a)). This would be so under AASB 1058, paragraph 10, and also when deferred income is released to profit or loss for PPE under construction under AASB 1058, paragraph 15.

If these outcomes would indeed result from application of AASB 18, we consider these inconsistencies may cause confusion for NFP entities and users. We therefore recommend outreach, education and additional guidance if no changes are to be made to AASB 18 to address NFP-specific requirements.

Other considerations

We also question whether showing grants as investing activities will affect the interpretation and application in practice of the revenue thresholds for assessing whether and how entities must report to the ACNC and/or other regulators.