AASB Submission - ITC 50 Post-implementation Review - Question 8

Dear AASB,

Please find below an extract, the text highlighted purple and blue, from an email sent to Colin Parker, Principal, GAAP Consulting and Carmen Ridley, Principal, Australian Financial Reporting Solutions, one year ago, nearly to the day.

Carmen was kind enough to call to discuss this matter and suggested I keep an eye out for the post implementation review (or words similar). I apologise for this to be sent to you 2 weeks after the closing date for submissions.

The section highlighted blue is the dilemma for small NFP's who receive irregular, possibly only one in a decade or more, that significantly effects the financial performance of the NFP.

The AASB's consideration of the effects of receiving a capital grant and recognising it as income upon receipt with the burden of depreciation recognised over the life of the asset or the remaining lease term.

If there is an alternative solution that is already within the AASB's that I am not aware of then your guidance would be most appreciated.

Thanks in advance,

Ian Barfoot

Treatment of contributions from government (grants) to build a facility. The NFP entity received multiple state and federal grants totalling over $8 million to build a facility on leased property that has approximately 20 years remaining on the lease.

Note that there is no requirement in the grants for the entity to use the building in a particular manner or to provided ongoing services to the local community, the only requirement is to build the building although in my humble opinion the government would have an expectation that the building would be used to provide services to the local (sporting) community over an extended period. The entity has for several years prepared GPFR-RDR.

It appears that the grant funds should be treated as income on receipt as there is no contractual requirement to provide ongoing services. Therefore, after the building has been built it becomes an asset of the entity and would be depreciated over the term of the lease.

Journals:

- Grant funds: Dr Cash at Bank $8,000,000, Cr Grant Funds Received $8,000,000 (progress payments to be received).

- Build building: Dr PP&E – Buildings $8,000,000, Cr Cash at Bank $8,000,000 (progress payments to be paid).

- Use building: Dr Depreciation Expense $400,000, Cr Accumulated Dep'n Building $400,000 (for 20 years).

The entity's committee will be patting itself on the back after year one as it showed a surplus of about $8,000,000.

The entity's committee/s will be burdened by a $400,000 non-cash expense before it opens its doors each year for the next 20 years and the committee's which follow the initial committee will be lambasted with accusations on incompetence, amongst others, to run a 'profitable business' due to this ongoing burden, not a good environment to be recruiting new committee members. The accusations will come from those that do not understand the accounting and certainly not in 10 to 20 years time, those people being the members who come from the local community (who are not trained businesspeople blessed with a financial background or people with financial understanding). My experience with NFP entities with volunteer committees that predominantly return low value surpluses, if not minor losses, experience negative feedback along the lines mentioned above from their members. A good committee educate some members, but some members are not receptive to the accounting treatment.

For a for-profit entity the application of AASB 120 – Government Grants, paragraphs 24 – 28 & 39, would have been used although I understand that this AASB is superseded by AASB 15, is this correct? Further, I read some time ago that Carmen stated that AASB 120 could not be applied to a NFP, is my memory correct?

If the entity could apply AASB 120 then the set of journals would be:

- Grant funds: Dr Cash at Bank $8,000,000, Cr Unexpended Grant Funds $8,000,000 (progress payments to be received).

- Build building: Dr PP&E – Buildings $8,000,000, Cr Cash at Bank $8,000,000 (progress payments to be paid).

- Use building: Dr Depreciation Expense $400,000, Cr Accumulated Dep'n Building $400,000 (for 20 years).

- Recognise consumption of Grant Funds: Dr Unexpended Grant Funds $400,000, Cr Grant Funds $400,000.

- Or instead of journals 3 & 4 above, apply paragraph 27, Dr Unexpended Grant Funds $8,000,000, Cr PP&E – Buildings $8,000,000.

Is this allowable treatment and if so, what would be the current standard/s allowing the second set of journals to be applied?

Cash basis journals would be:

- Grant funds: Dr Cash at Bank $8,000,000, Cr Grant Funds Received $8,000,000 (progress payments to be received).

- Build building: Dr Building expense $8,000,000, Cr Cash at Bank $8,000,000 (progress payments to be paid).

Note that this is an extreme example that has come across my desk of recent times although I do have clients that receive significant grant funds for capital assets that once obtained have the effect of a significant surplus in year one and a large ongoing burden for the life of the asset (lease term).

Kind regards
CAAAS AUDIT SERVICES

IAN W BARFOOT
DIRECTOR &
REGISTERED COMPANY AUDITOR

MOBILE / 0413 807 660
FAX / 07 5564 9259

EMAIL / IB@CAAAS.COM.AU
WEB / WWW.CAAAS.COM.AU

PO BOX 43 NOBBY BEACH QLD 4218

CAAAS
ABN 41 109 663 489