

26th February 2026

Dear AASB

I submit the following comments in regard to

Exposure Draft - ED 338 Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation - October 2025 -

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.

1. For universities, classification of operating expenses by **function** should be mandatory rather than optional. Alternatively, the Australian Accounting Standards Board (AASB) should issue specific Application Guidance or an Interpretation requiring, or at a minimum clearly directing, the use of functional classification for universities.
2. For the university sector, classification by function provides substantially more decision-useful information than classification by nature. Universities are not single-activity entities; they undertake at least two economically distinct functions—**teaching** and **research**—each with different funding models, cost structures, risk profiles, and performance metrics.
3. Classification by nature (e.g., salaries, depreciation, operating costs) aggregates expenses across these distinct activities. As a result, it obscures the true cost of delivering education, the cost of producing research, and the extent of cross-subsidisation between functions. This materially limits users' ability to assess efficiency, sustainability, and performance.
4. Despite the clear informational advantages of functional reporting, universities currently classify expenses predominantly by nature. This reporting practice diminishes transparency and weakens accountability, particularly given the significant level of public funding received by the sector.
5. The persistence of nature-based classification, notwithstanding the superior decision-usefulness of functional classification, indicates that optionality is insufficient. Without a mandate or authoritative guidance, institutions lack both the incentive and consistency necessary to produce comparable and functionally meaningful information.
6. A mandate or specific application guidance is therefore necessary to ensure standardisation. Standardisation is critical for comparability and transparency

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across institutions. It would materially improve cross-institution benchmarking, strengthen public accountability, and provide the informational foundation required to drive productivity and efficiency improvements within the university sector.

7. Evidence of significant inefficiencies within the university sector—arising in part from weak accountability due to poor-quality expense reporting—is available upon request.

Regards

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