

The University of Melbourne

Comments on ED 260 Income of Not-for-Profit Entities

Please find enclosed comments on the Exposure Draft 260 Income of Not-for-Profit Entities from The University of Melbourne.

1. Broadly we support the proposals in ED 260 Income of Not-for-Profit Entities and agree it is a step in the right direction to overcoming some of the flaws in AASB 1004 Contributions. In the past we have seen various ED's on this topic raised and not implemented so we encourage implementation even though it may not overcome 100% of flaws with the current standards.
2. Enforceability – further guidance is required to define this term. Is having a signed legal agreement sufficient to meet the enforceability requirement, as signed agreements generally have legal recourse to either carry out the contract or compensation for non-performance? Can this be made clearer in the standard?
3. Some examples in ED260 need refining as they are very general and as such do not provide further guidance. E.g. it is not clear from the examples over what time period the revenue is being recognised. Specific research grant examples would be appreciated around sufficiently specific, enforceability and also the time period over which research income is recognised. Would this be as research is conducted i.e. money expended on the research activity?
4. The University of Melbourne currently defers revenue for qualifying research grants and receives a qualification for doing so. We have provided examples below of our current treatment and expected treatment from our understanding of ED260.
 - Example 1: A typical research agreement that we defer is one that meets our definition of reciprocal as it contains terms and conditions, one of which is either a requirement to return unspent funds or funds spent that are not in accordance with the agreement. Assuming there is a sufficiently specific promise under ED260 to carry out research for a particular purpose under this agreement, in our view this agreement meets the definition of enforceable as there is a legally binding agreement and the agreement specifies unspent funds or funds spent outside of the terms of the agreement have to be repaid. Is our understanding correct?
 - Example 2: a typical research agreement that we do not defer is one that does not meet our definition of reciprocal (i.e. it does not have a condition that unspent funds or funds spent that are not in accordance with the agreement have to be returned). However, under ED260 it is our view that this funding meets the definition of a contract with a customer and would fall within the scope of AASB 15 as there is a legally enforceable agreement between two parties which can be enforced by legal means. Is our understanding correct?
5. In relation to the requirement to separately identify donation components from transactions, is there a benefit of doing so? We are of the opinion that the cost of separating far outweighs the benefit.
6. Transition date – we are eager for the new standard to be implemented as soon as possible, with the option to early adopt permitted. It is our belief that this will lead to more meaningful comparable financial statements across the sector.