



The Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

Our ref ED 260 Submission letter

14 August 2015

Dear Kris

**Submission - AASB ED 260 *Income of Not-for-profit Entities***

We are pleased to have the opportunity to comment on ED 260 *Income of Not-for-Profit Entities* (ED).

We acknowledge the current diversity in practice by not-for-profit (NFP) entities in accounting for revenue under the existing reciprocal/non-reciprocal distinction. As such we support the Boards decision to address this divergence and provide guidance on accounting for revenue based on whether a NFP needs to satisfy performance obligations.

We believe the proposals will reduce existing divergence and enhance transaction neutrality. However we believe that additional to the existing proposals, supplementary implementation guidance for NFP entities applying AASB 15 *Revenue from customers with contracts* (AASB 15) would be beneficial. In particular guidance on the allocation of the transaction price to performance obligations, given the nature of some NFP products and services, the stand-alone selling price and reasonable margin is difficult to determine.

Appendix A to this letter comments on the specific questions raised in the ED.

Please contact myself on (02) 9455 9120 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kim Heng', written in a cursive style.

Kim Heng  
*Partner*

## Appendix A

**1) In relation to the AASB’s proposal to replace the reciprocal / non-reciprocal transfer distinction in AASB 1004 with income recognition requirements based on whether a not-for-profit entity needs to satisfy a performance obligation:**

**(a) do you agree that this proposal would provide a faithful depiction of a not-for-profit entity’s financial performance?**

**(b) if not, what alternative approach to income recognition would you recommend for not-for-profit entities? Please provide your reasons.**

We agree with the proposal to replace the reciprocal/non-reciprocal transfer distinction with income recognition requirements based on the satisfaction of a performance obligation, as this will:

- Reduce existing divergences – currently there is divergence in the application of AASB 1004, in particular with the interpretation of reciprocal/non-reciprocal transactions. While there may still be subjectivity in applying the proposals (for example in determining what constitutes a performance obligation), generally we believe the proposals will lead to greater consistency in income recognition among NFP entities.
- Enhance transaction neutrality – where an arrangement contains performance obligations, the revenue assessment should be consistently applied, regardless of whether the entity is a NFP or for-profit entity.

**2) In relation to the AASB’s proposal that, to qualify as a performance obligation, a not-for-profit entity’s promise to transfer a good or service to a counterparty in a contract must be ‘sufficiently specific’ to be able to determine when the obligation is satisfied (see paragraph IG13 of Part A):**

**(a) do you agree with this proposal?**

**(b) if not, what factors or criteria should apply to determine whether a not-for-entity has a performance obligation? Please provide your reasons.**

We generally agree with the AASB proposal. The inclusion of a sufficiently specific promise (as well as that promise being enforceable) indicates there is an obligation to account for under AASB 15.

However, more guidance in the final standard would be helpful in reducing the divergence on how widely (or narrowly) a NFP entity may interpret the conditions identified in the ED as being sufficiently specific. We are particularly concerned with the “nature or type of the goods or services” and “cost or value of the goods or services” specification.

We acknowledge the difficulty in providing guidance in this area, given the range of nature or type of goods or services that can be offered by NFP entities. However, a series of indicators, supplemented with illustrative examples, on the level of detail required to be considered

“specific” could be helpful. For example, what does the AASB consider to be specific: “spend on mental health issues programs” or “spend on counselling associated with mental health issues” or “spend on 10 sessions of counselling per client, associated with mental health issues in a specified geographic region”.

Similarly with respect to the “cost or value of the goods or services” specification, we have questions regarding the level of specificity required to establish a performance obligation exists. For example, would terms similar to “\$5 million to be spent on counselling services related to mental health issues” or “the funding is such that it is calculated per annum and is based on the salary expenses to cover the services the recipient is required to perform” meet this criteria of sufficiently specific? If this is the case, then we expect the majority of NFP arrangements may fall in the scope of AASB 15, which may not be the intention of the proposals.

With regards to the “enforceability” requirement, there may be circumstances where there are performance obligations yet the agreement is silent on the consequences on the NFP of not fulfilling the agreement. In such a situation the only recourse for the counterparty might be to sue for breach of agreement. In our view, this would still be enforceable however clarification on this would be beneficial.

**3) Do you agree with the proposal in paragraphs IG19-IG30 of Part A that a not-for-profit entity would recognise a donation component in a contract with a customer as immediate income only if:**

**(a) a qualitative assessment of available evidence indicates that the customer intended to make a donation to the not-for-profit entity; and**

**(b) the donation component is separately identifiable from the goods or services promised in the contract? (See also paragraphs BC36-BC49 of the Basis for Conclusions.)**

**If not, under what circumstances should a not-for-profit entity identify and account separately for a donation that is provided as part of a contract with a customer?**

We agree that a NFP entity would recognise a donation component as immediate income only if the donation component is *separately identifiable* from the goods and services promised in the contract (i.e. part (b) of above).

Whilst we do not disagree with the requirement for a qualitative assessment of evidence indicating that the customer intended to make a donation, we question the value in including both requirements in the final standard. Where a donation component is separable and does not have any obligations attached, we would expect the customer’s intention of providing a donation would be implicit in this separately identifiable component. Consequently, we do not believe there is a need to perform part (a) of the requirement above i.e. a qualitative assessment of the evidence indicating this intention.

**4) In relation to the AASB's proposals to:**

**(a) permit any not-for-profit entity to recognise volunteer services as income if the fair value of those services can be measured reliably; and**

**(b) carry forward the requirement in paragraph 44 of AASB 1004 that particular public sector entities must recognise volunteer services if those services would also have been purchased if they had not been donated,**

**the AASB seeks views on:**

**(a) whether the requirements (if any) for the recognition of volunteer services should be the same for all not-for-profit entities, regardless of whether they operate in the public or private sector; and**

To enhance transaction neutrality, we believe all NFP entities should be subject to the same recognition of volunteer services requirements, regardless of whether they operate in the private or public sector.

**(b) if your answer to (a) is 'yes', whether the recognition of volunteer services should be:**

**(i) optional, provided that the fair value of those services can be measured reliably; or**

**(ii) required if those services would also have been purchased if they had not been donated.**

**(See also paragraphs BC59-BC63 of the Basis for Conclusions.)**

We would not support a proposal to allow entities the option of recognising volunteer services. Whilst we appreciate the practical difficulties of capturing and measuring the fair value of such services, we feel the option approach will reduce the usefulness of financial statements as entities will opt for differing accounting policies.

We recommend a requirement for the recognition of volunteer services, where the fair values of the services can be measured reliably and would have been purchased if they had not been donated be applied to all NFP's, applicable in both the private and public sector.

We would not support a proposal that mandates the recognition of all volunteer services.

**5) Do you agree with the proposal in paragraph 38 of [draft] AASB 10XX that, when inventories are donated to a not-for-profit entity other than as part of a contract with a customer, assessments of whether the donations are material should be made on an individual transaction basis without reassessment at a portfolio or other aggregate level? (See also paragraphs BC50-BC51 of the Basis for Conclusions.)**

We agree with this proposal.

The cost of fair valuing inventories donated to NFPs based on a materiality at a portfolio or other aggregate level, would outweigh the benefits of the information for the users of the financial statements. A requirement to reassess materiality at a portfolio or aggregate level would be particularly onerous for NFP entities that receive large volumes of low value items like non-perishable food items and books to sell in retail stores.

***6) Australian Accounting Standards applicable to for-profit entities do not include a definition of ‘contributions by owners’. Further, concerns have been expressed by some that the definition of ‘contributions by owners’ in AASB 1004 is too narrow.***

***Do you consider that a definition of ‘contributions by owners’ is still necessary, or appropriate, in Australian Accounting Standards?***

***If so, would you prefer using:***

***(a) the definition of ‘contributions by owners’ presently in AASB 1004; or***

***(b) the definition of ‘ownership contributions’ in the Public Sector Conceptual Framework issued by the International Public Sector Accounting Standards Board (IPSASB)? (See also paragraphs BC84-BC91 of the Basis for Conclusions.)***

We consider the definition of “contributions by owners” is still necessary and as such the guidance should remain.

In our experience many entities (in particular public sector entities) are applying both the guidance in AASB 1004 and Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* (Interpretation 1038) for contributions by owners. However, AS there is inconsistency in practice as to the accounting for these types of transactions we would welcome re-evaluation of the guidance on “contributions by owners”.

Given the current reliance and the significant transactions undertaken using this guidance, we suggest that any changes to this guidance should be subject to a separate project with the appropriate consultation.

A potential disadvantage with the IPSASB definition of ‘ownership contributions’ is while it may be a clearer definition than that in the existing AASB 1004, it may not capture all relevant transactions. For example, in the public sector it is common for transfers between government agencies to be accounted for as ‘contribution by owners’, as the common parent is the Government but the transferring entities are not in an owner/subsidiary relationship directly, i.e. “sister” companies. These transactions may not be captured under the IPSASB definition where the transferor is not considered an “owner” under the definition.

**7) The AASB also seeks views on the following issues related to contributions by owners:**

**(a) whether, in view of concerns expressed by some that using AASB 1004's definition of 'contributions by owners' in AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities (which includes for-profit public sector entities in its scope) might prevent a for-profit entity in the public sector from making an unreserved statement of compliance with IFRSs, AASB Interpretation 1038 should be:**

**(i) withdrawn;**

**(ii) retained but with narrower application [that is, limited to not-for-profit entities in the public sector, and possibly also confined to identifying which not-for-profit public sector entities should account for transfers between them when they are controlled by the same parent (government)]; or**

**(iii) retained without amendment? (See also paragraphs BC84-BC94 of the Basis for Conclusions.)**

**(b) whether requirements for restructures of administrative arrangements (presently set out as paragraphs 54-59 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraph BC90(b) of the Basis for Conclusions);**

**(c) Whether requirements for distributions to owners (presently set out as paragraphs 49 and 53 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraphs BC94-BC96 of the Basis for Conclusions);**

**(d) whether requirements for liabilities of government departments assumed by other entities (presently set out as paragraphs 39-43 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraphs BC97-BC98 of the Basis for Conclusions); and**

**(e) the practical implications if the definition of 'contributions by owners' and AASB Interpretation 1038 were to be withdrawn?**

We believe that AASB Interpretation 1038 and other accounting guidance as identified in questions (a) to (d) should be retained without amendment until a more detailed assessment of the concerns and limitations of the current guidance can be undertaken. We acknowledge the limitations of the guidance, specifically issues with compliance with IFRS and diversity of application in practice. However, in our experience this Interpretation is relied on for significant transactions in the public sector, including by for-profit entities.

Therefore, we would not support their withdrawal without other guidance being issued to support public sector entities undertaking these types of transactions. Also, we would not support the retention but with narrower application to NFP entities. As stated, for-profit public sector entities are entering into these types of transactions and to ensure consistency and transaction neutrality in accounting, the same guidance should apply to the same transactions regardless of whether the entity is a for-profit or a NFP entity.

We would support a separate project being established by the AASB to examine this area of accounting guidance, however until this has been undertaken we would not support removing or changing any existing guidance in this area.

We also highlight that the IASB is undertaking a separate project for business combinations under common control, the outcome of this project may provide guidance for accounting for restructures of administrative arrangements given the similarity in nature.

**8) In relation to disclosure requirements regarding compliance by government departments with appropriations, do you agree with:**

**(a) omitting the requirement in paragraph 64(e) of AASB 1004 to disclose the nature and probable financial effect of any non-compliance by the government department with externally-imposed requirements for the period, other than any non-compliance reflected in material variances between amounts appropriated and amounts expended? (See paragraphs BC99-BC103 of the Basis for Conclusions.)**

We have no specific comment on the proposal to omit this disclosure requirement.

**(b) extending the scope of the retained disclosure requirements for government departments (ie those regarding any non-compliance reflected in material variances between amounts appropriated and amounts expended) to also apply to any other public sector entities that obtain part or all of their spending authority from parliamentary appropriations? (See also paragraphs BC99-BC103 of the Basis for Conclusions.)**

We agree with this proposal as the extension of scope supports transaction neutrality. If these public sector entities are receiving the same funding as government departments, then the same disclosure requirements should apply.

**9) Do you agree with the proposed transitional provisions in Appendix C of [draft] AASB 10XX? In particular:**

**(a) do you agree with the transitional provisions for non-financial assets and finance lease assets and liabilities, the cost of which was not measured at fair value on initial recognition; and**

**(b) do any other issues warrant additional transitional provisions and, if so, which transitional provisions do you suggest? (See also paragraphs BC104-BC109 of the Basis for Conclusions.)**

We do not agree with the transition provisions for non-financial assets and finance lease assets and liabilities which were not previously measured at fair value on initial recognition.

The requirement to obtain fair values for non-financial assets and finance lease assets and liabilities at the point in time of initial recognition and the current carrying amount of those assets and liabilities is not practical for NFP entities.

We believe transitional relief should be included in the final standard. The transitional relief should provide an NFP entity with the option to recognise the non-financial assets and finance lease assets and liabilities at fair value either:

- Fully retrospectively; or
- At the beginning of the earliest period for which comparative information is presented.

Such transitional relief would strike an appropriate balance between providing useful, comparative information and cost of implementation.

Given the interaction between AASB 15 and AASB 10XX, the Board should also consider the transition provisions in AASB 10XX and AASB 15.

***10) Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:***

***(a) not-for-profit entities; and***

***(b) public sector entities, including GAAP/GFS implications (discussed above).***

The International Monetary Fund (IMF) is in the process of revising the GFS manual. Therefore, a formal assessment of the impact of these proposals on GFS will need to be made when the manual is finalised and incorporated into the Australian Bureau of Statistics (ABS) GFS Manual.

Based on the 2014 Pre-publication Draft Manual we agree with the comments in the ED that there may be circumstances where the timing of revenue recognition may differ. However, these would be in limited circumstances and we do not expect a GFS/GAAP convergence issue based on the requirements of the ED.

We are not currently aware of other regulatory issues arising in the Australian environment that may affect the implementation of the proposals.

***11) Whether, overall, the proposals would result in financial statements that would be useful to users.***

In our view, the proposals would result in useful financial statements, as it will provide increased consistency in NFP accounting and allow users to compare financial statements.

***12) Whether the proposals are in the best interests of the Australian economy.***

For all the reasons noted above, we agree the proposals are in the best interests of the Australian economy.



***13) Unless already provided in response to specific matters for comment 1 – 9 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.***

While we have an expectation of significant costs and time involved in transitioning to this Standard, we are unable to comment on any estimated amounts.