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5 December 2005

The Chairman
Australian Accounting Standards Board
PO Box 204
Melbourne Vic 8007

Dear Professor Boymal

Exposure Draft ED 144 Proposed Australian Guidance to accompany AASB 1004 Contributions

Thank you for the opportunity to comment on the Exposure Draft ED 144 *Proposed Australian Guidance to accompany AASB 1004 Contributions*.

Our comments have been prepared in consultation with members through our Centre of Excellence – Financial Reporting and Governance.

The Preface to the ED notes that no changes are proposed in ED 144 to the requirements of AASB 1004. Rather, the proposed guidance in the ED gives effect to the Australian Accounting Standards Board's (AASB's) re-interpretation of the requirements in AASB 1004, foreshadowed in ED 125 *Financial Reporting by Local Governments* and the AASB's reconsideration of the interaction between AASB 1004 and AASB 118.

CPA Australia supports the inclusion of material that enhances the comparability of financial reports. However, we are concerned that the comparability of financial reports might continue to be compromised as a result of the proposed application guidance material not clarifying the meaning of the words used to define a non-reciprocal transfer "A transfer in which the entity receives assets or services or has liabilities extinguished **without directly giving approximately equal value in exchange to the other party or parties to the transfer.**" [emphasis added]

We understand it is common for not-for-profit entities to receive cash from a grants commission, and that cash is used to enable the not-for-profit entity to provide needed or desired services to its customers, typically at little or no direct cost to those customers. Some commentators consider that the transaction is within the scope of AASB 1004 as the not-for-profit entity does not directly give approximately equal value to the grants commission – accordingly, income will be recognised when all the following conditions can be satisfied:

- the entity obtains control of the contribution or the right to receive the contribution;
- it is probable that the economic benefits comprising the contribution will flow to the entity; and
- the amount of the contribution can be measured reliably.

Other commentators consider that in the context of “principles-based” standards, the transaction is within the scope of AASB 118 as the substance of the transaction is different from the principle articulated in the non-reciprocal transfer definition – accordingly, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the transaction shall be recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

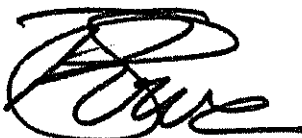
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

We consider that without the inclusion of material on this issue, the distinction between applying AASB 118 and AASB 1004 is not sufficiently clear.

Our detailed comments to the specific matters identified in the ED are attached to this letter.

Should you have any queries on our comments, please contact Dr Mark Shying, CPA Australia’s Financial Reporting and Governance Senior Policy Adviser at mark.shying@cpaaustralia.com.au.

Yours sincerely



Peter Lowe CPA
Chief Executive

cc: M Shying

CPA Australia comments on

Exposure Draft ED 144 Proposed Australian Guidance to accompany AASB 1004 Contributions

a. Should guidance be issued at this stage to accompany AASB 1004, in light of the likelihood of future changes given the various projects being undertaken by the IASB and IPSASB?

We support the inclusion of material that enhances the comparability of financial reports, that is:

- i. comparability of the financial reports of an entity through time; and
- ii. comparability of the financial reports of different entities.

We expect that the included material will enhance the second comparability category. However, we are concerned that the achievement of the first comparability category may be hindered by the interim nature of the guidance. On balance, we consider that the current demand from not-for-profit entities for added material needs to be met. We have additional concerns with:

- the timetable for adoption – given that some not-for-profit entities have December year ends; and
- the absence of any explicit exemption in AASB 1004 from the requirement to restate comparative information to give effect to the Australian Guidance. We acknowledge that the Australian Guidance accompanies, but is not part of AASB 1004. Nonetheless, we anticipate that in the absence of any explicit exemption in AASB 1004, auditors (and possibly those entities overseeing the acquittal process) will expect the application of the Australian Guidance to be reflected in the comparative information. We think that this is an unreasonable burden.

b. Is the proposed guidance on the circumstances in which a contribution is initially recognised as liability, rather than income, useful?

Yes, we consider that the proposed guidance is useful.

c. Are there any situations that would result in the guidance leading to a liability being initially recognised, when it is more appropriate for income to be recognised?

We are not aware of any situations.

d. Are there any situations that would result in the guidance leading to income being initially recognised, when it is more appropriate for a liability to be recognised?

We are not aware of any situations.

e. Is the distinction between applying AASB 118 and AASB 1004 sufficiently clear?

We do not think the distinction between applying AASB 118 and AASB 1004 is sufficiently clear. As stated in the accompanying letter, we understand it is common for not-for-profit entities to receive cash from a grants commission, and that cash is used to enable the not-for-profit entity to provide needed or desired services to its customers, typically at little or no direct cost to those customers. Some commentators consider that the transaction is within the scope of AASB 1004 as the not-for-profit entity does not directly give approximately equal value to the grants commission – accordingly, income will be recognised when all the following conditions can be satisfied:

- the entity obtains control of the contribution or the right to receive the contribution;
- it is probable that the economic benefits comprising the contribution will flow to the entity; and
- the amount of the contribution can be measured reliably.

Other commentators consider that in the context of “principles-based” standards, the transaction is within the scope of AASB 118 as the substance of the transaction is different from the principle articulated in the non-reciprocal transfer definition – accordingly, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the transaction shall be recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

We support the inclusion of material on this issue.

f. Instead of treating contributions in relation to the rendering of services under AASB 1004 and using the proposed guidance, should such amounts be treated in accordance with the rendering of services requirements in AASB 118?

AASB 1004 distinguishes a non-reciprocal transfer to the entity (or contribution) in relation to the rendering of a service from the amount received or receivable that relates to the rendering of a service. AASB 1004 and the Australian Guidance suggest that the distinction is quite stark. We understand that often this is not the case – instead the distinction may be quite murky, for example, when the amount received or receivable might potentially consist of two components: a contribution in relation to the rendering of a service and another amount that relates to the rendering of a service. Whilst we consider it appropriate that contributions in relation to the rendering of services be subject to AASB 1004 and not AASB 118, we think it would be helpful if the added material illustrated by way of example how an entity might bifurcate the amount.

OTHER CONCERNS

Paragraph G3 illustrates by example that, when "...an entity holds a fundraising function and charges an attendance fee that partly relates to the rendering of services for the provision of meals and entertainment and partly a donation. The amount relating to the rendering of services is treated in accordance with AASB 118. The amount relating to the donation is treated in accordance with AASB 1004. We understand that separating the rendering of services element and the donation element would in practice be problematic and as not-for-profit entities do not normally manage their events in this manner would require a significant systems change.