

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

5 December 2005

Dear Sir

**Comments on Exposure Draft 144
Proposed Guidance to Accompany AASB 1004**

Thank you for your invitation to make comments on Exposure Draft 144 and the opportunity of making this non confidential submission to your Board. You have invited comments on the following matters –

- (a) whether guidance should 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;

The Australian Not for Profit Network supports the issue by AASB of guidance to accompany AASB 1004. A primary reason for our support is the significant dissatisfaction which exists in the sector regarding the recognition of revenue. The members of our Network believe the proposed guidance will be specially welcomed by Australia's charity and welfare organisations whose revenues contain a significant component of non reciprocal transfers (donations).

- (b) the usefulness of the proposed guidance on the circumstances in which a contribution is initially recognised as a liability, rather than income;

While we are of the view that there are circumstances in which a contribution might properly be treated as a liability, we are concerned to note the 'legalistic' tone of para G6 which refers to a (legally) enforceable contribution. On the other hand, the para closes with a conclusion which should meet the objections of those who feel the para places undue emphasis on an enforceable stipulation at the expense of a moral obligation¹

We welcome the possibility of treating a contribution as a liability as well as an asset and the commitment of the AASB to continue exploring this difficult issue.

- (c) whether there are 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;

No, other than in cases where the preparer of a financial report is confused as to whether a particular transaction meets the criteria of a contribution.

- (d) whether there are 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;

¹ In recent years some overseas aid agencies have found that, although most donors had not made legally enforceable contributions, the fact that the agencies did not (in some cases) use the funds for the purpose for which they were intended gave rise to governments expressing the view that they had a 'moral' obligation to do so, adding that they should make restitution of this obligation. Some believe that such donations should have been treated as liabilities until they were expended to or on behalf of their ultimate beneficiaries while others believe that the nature and extent of restrictions on Funds should be disclosed instead (see Other Comments).

Yes. This is because we have some difficulty with the notion that contributions (non reciprocal transfers) are defined so broadly. They include transfers which are received 'without directly giving approximately equal value' in return. To be non-reciprocal, we consider that little or no value should be provided in return for the transfer.

(e) whether the distinction between applying AASB 118 and AASB 1004 is sufficiently clear;

We suggest that the flowchart at G5 has a further box inserted between boxes two and three (making the insertion the third box in the left hand column) which would apply the test "Does the inflow give rise to the creation of a liability?"²

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

We consider the guidance at G7 and G8 to be particularly helpful to charities and other not for profit entities who receive a significant amount of donations.


Other Comments

We suggest there would be merit in exploring further the concept of restricted and unrestricted revenue whereby assets arising from contributions are classified so as to reveal that they are not immediately available for general use by the entity³. This should not delay the release of the proposed Guidance.

Summary

The Australian Not for Profit Network supports the immediate release of the proposed guidance, noting that it will be issued as an interim measure and ultimately withdrawn when AASB 1004 is subject to a fundamental review.

Yours faithfully



Kimberly Smith
Chairman
Australian Not for Profit Network

² Instead of *liability*, the term *obligation* could be used. However, in this case a more detailed explanation of the replacement term would be desirable.

³ An example of this is - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidating statements of activities as "net assets released from restrictions." - from the 2004 Annual Report of the Institute of Internal Auditors [USA] - also refer FASB 117