David T. Greenall
B.A., B.COM. , FCPA.

Tel +61 3 9878 1477
Fax +61 3 9894 1798
Res. phone no./ fax
+61 3 9521 9531

e-mail: greenall@aapt.net.au

1stFloor
60-64 Railway Rd
BLACKBURN 3130
(P.O. 189)
Victoria Australia

'Liability limited by a scheme approved under Professional Standards Legislation'

Mr Kevin Stevenson
The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

25th November 2009

Dear Kevin

Exposure Draft ED 180: Income from Non-exchange Transactions (Taxes and Transfers)

Continuing my interest in Accounting Standards for Not-for-Profit organisations, attached is my submission for the Board's Consideration.

Sincerely,

David Greenall

DAVID T. GREENALL

Exposure Draft	AASB ED 180 FRSB ED 118 June 2009

Income from Non-exchange Transactions (Taxes and Transfers)

Response from David T, Greenall, Former member of Public Sector Accounting Standards Board, Auditing Standards Board and Urgent Issues Group.

A. OVERALL SUPPORT OF PROPOSALS:

1. I am very supportive of the ED as a whole and particularly pleased the Board has seen fit to base this Australian Standard for Not-for-profits, not on IAS 20, which has a conceptual framework based on the profit motive, but on the deliberations of the IPSASB.

2. As a person closely involved with the development of AASB 1004 Contributions, my comments relate to variations provided by this proposed standard. I believe that it will go a long way towards clarifying major issues for the private sector Not-for-Profits (NFP's), in particular:

Capital Grants
Time-based grants
Restricted (not conditional) use grants
Fee-for-service Revenue

B. COMMENTS ON MAJOR ISSUES:

3. I believe that those involved in applying AASB 1004 for several years may, without further guidance misconstrue the effect of this standard and how little it actually modifies AAS 1004.

4. I believe the following matters need to be highlighted by private sector NFP examples. Consideration should be given to include these matters in the Preface – Implications of the proposals Page 12 in relation to Australia (repeated at BC21-24) or some other document released simultaneously with the standard.

5. Whilst I appreciate "Timing" is a major difference, there are others. For example a restriction on the term "Condition" is in Paragraph 8 (Definitions) which includes:

Conditions on transferred assets are stipulations that specify that the future economic benefits embodied in the asset are required to be consumed by the recipient as specified **or future economic benefits must be returned to the transferor.** (my emphasis)

It is my experience that often grant agreements will not include this requirement to return assets. Notwithstanding this, grants are treated on a "stage of completion basis", which would not be allowed under the proposed standard, as the grant, no matter how specific and stringent the requirements, would not give rise to a liability. I think this should be the subject of an Australian example.

6. Also "Substance over form" (Para 21) is very relevant in determining whether there is a liability and paragraph 23 restricts the term "condition" very substantially in relation to private sector NFP's

........To satisfy the definition of a condition, the performance obligation will be one of substance not merely form and is required as a consequence of the condition itself. A term in a transfer agreement that requires the entity to perform an action that it has no alternative but to perform, may lead the entity to conclude that the term is in substance neither a condition nor a restriction.

Many organisations receive government grants to help them achieve their objectives such as handling cases of homeless people, the number of cases and requirements of these grants may well be specified in an agreement with the government, with the requirement to return assets for non-performance. I suspect from reading "notes to the accounts" that current practice often does not take this into account. My reading of this paragraph, and in accordance with AASB 1004, governments assisting an organization to achieve their objectives, income is recognized on receipt of the grant notwithstanding the requirement to return for non-performance. I believe this view is confirmed in the National Government Example 10 (IG20-21):. It is also consistent with the conceptual framework as it provides resources to achieve the organisation's objectives.

7. Also, sufficient weight needs to be given to paragraph 24, which has some very specific requirements for the recognition of a liability. Some readers of the decision tree may assume that because an agreement specifies a repayment will be required automatically creates a liability. Paragraph 24 is much more restrictive in creating a liability:

......Therefore, a condition will need to specify such matters as the nature or quantity of the goods and services to be provided or the nature of assets to be acquired as appropriate and, if relevant, the periods within which performance is to occur. **In addition, performance will need to be monitored by, or on behalf of, the transferor on an ongoing basis.** (my emphasis).

In my experience such monitoring is often not carried out and government grants "sit there for years".

The view of "No liability" in these circumstances is supported by County-to-Country Example 24 (IG 50-51)

In this case, perhaps "probability" is the criterion.

8. Additional requirements in the "Disclosure" section

107 (d) the amount of assets recognised that are subject to restrictions and the nature of those restrictions;

might be quite onerous in relation to property, plant and equipment without guidance as to what is required, particularly in view of the transition provisions which require only prospective information which may be less relevant than past history.

9. Whilst I agree that the major difference with AASB 1004 is the timing of recognising a liability, the critical (and useful) information which should be conveyed through this document or some other is the difference between what are currently and divergent practices and what will be required under the proposed standard. A method of conveying this through this document would be to give more private sector NFP examples including those which highlight the above matters I have raised.

C. MORE USEFUL TO USERS?

To the extent that this document would remove the many different treatments of similar government grants in private sector NFP financial reports, it will assist users.

DAVID T. GREENALL B.A., B.COM., FCA., Melbourne 25th November 2009