

ED 180

30 November 2009

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

Email: standard@asb.gov.au

Dear Mr Stevenson,

Re: ED 180 - Income from Non-exchange Transactions

We appreciate the opportunity to comment on the Australian Accounting Standards Board (AASB) Exposure Draft (ED) 180 *Income from Non-exchange Transactions (Taxes and Transfers)*.

This response has been prepared jointly by Murdoch University and Edith Cowan University.

Executive Summary

Firstly, we would like to recognise the AASB in identifying the need to review the current AASB 1004 *Contributions* in relation to the recognition and initial measurement of income from non-exchange transactions by not-for-profit (NFP) entities. As noted in the 'Reasons for Issuing this Exposure Draft' section, we agree that the current AASB 1004 does not comprehensively address the recognition and measurement issues associated with income from non-exchange transactions.

In regards to ED 180, we support the ED in principle and believe that its development into an accounting standard will improve the consistency and comparability of financial reports presented by all NFP entities, especially Universities, and will result in more accurate financial results than currently is being presented under the existing AASB 1004.

We also note that the existing AASB 1004 has resulted in different interpretations amongst Universities and even auditing firms, the results of which are very difficult to explain to non-financial users of our financial reports.


We are firmly of the belief that the current AASB 1004 standard distorts the financial performance of Universities, especially those that are Research Intensive or are the recipients of large capital grants. This is due to the standard essentially treating these grants on a cash basis unless one can argue that these grants are of a reciprocal nature.

In regards to the 'Specific matters for comment', please refer below to our responses. We have only addressed those questions we considered necessary.

Yours sincerely,



Julie Keene
Director Finance, Planning & Reporting & CFO
Murdoch University



Bradley Francis
Director, Finance and Business Service Centre
Edith Cowan University

Responses to ED 180 Specific Matters for Comment as considered relevant by Murdoch University and Edith Cowan University

1) Whether further guidance or illustrative examples are required in distinguishing exchange and non-exchange transactions or components of transactions

We would like the AASB to consider including additional examples more relevant to the University sector, such as:

- Specific research grants; and
- A non recurrent capital grant

In addition to the above, further guidance is sort in regards to the 'substance over form' requirements. We believe the current wording in the ED may lead to differences in interpretation and, therefore, application, and ask the AASB to improve clarity through tightened wording and by providing additional examples. In particular, we request the AASB to consider:

- changing the applicability of the substance over form clause to allow consideration of past experience of enforced repayment "by funding program" as opposed to "by funding body" or "transferor". The current wording leaves the application of this clause open to differing treatments as funding bodies/transferees may have different repayment practices across their various programs. The question then becomes, if a funding body has enforced the return of funds for a particular program but has never required repayment for several other programs, does the substance over form assessment on the first program apply to all the programs provided by that funding body?;
- providing clarification as to whether a legal condition to repay takes precedence over the 'substance over form' situation. We suggest the inclusion of appropriate examples that deal specifically with the situation where a funding body provides a significant amount of funding (with repayment conditions), but as a result of compliance with the rules of the funding program the recipients of that funding generally repay only a very small percentage of the original grant. In such a situation does the repayment condition override the 'substance over form' argument?; and
- the complexities involved in assessing substance over form, which results in the need for entities to consider and assess each funding agreement separately. Given the large number of agreements we enter into each year, compliance with this requirement will result in a considerable burden. Any way in which the substance over form requirements can be clarified and simplified, would be viewed favourably.

2) The definition and treatment of conditions on transferred assets

We request the AASB consider broadening the scope of the ED to be consistent with AASB 120 in terms of the definition and treatment of conditions. AASB 120 allows for-profit entities to recognise a liability when there are unmet grant conditions other than a return obligation.

3) Prospective application per the transitional provisions

We agree with prospective application of the new standard. However, we would like the AASB to set an application date and transitional provisions that will allow sufficient time for the necessary resources to be implemented and applied as of the beginning of the comparative reporting period.

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

As mentioned in our executive summary, we support this exposure draft as we believe it will assist our users to better understand our financial reports. It will also make our financial reports comparable with other University entities, especially those that are research intensive.