

**Keith Alfredson
44 Rockley Road
SOUTH YARRA VIC 3141**

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Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST, VIC 8007

Dear Sir

ITC 14 Proposed definition and Guidance for Not-for-Profit Entities

I believe the AASB is on the wrong “tram” seeking comment on the use of the term “public benefit entity” and its definition. The relevant accounting by such an entity is not, in my opinion, determined by whether the entity is a “not-for-profit” entity but rather whether it conducts “not-for-profit activities” (the concept used by the IASB).

By way of example, private schools are ordinarily under their constitutions “not-for-profit-entities” meaning that the entities cannot make distributions to their members, even in the event of liquidation (usually any surplus must be distributed to a similar not-for-profit entity). In such cases, such members are ordinarily members that provide a very limited guarantee in the event of liquidation. Any surpluses are routinely re-invested in the activities of the entity. However, a private school will ordinarily conduct almost all of its activities on a commercial basis and hence it is appropriate for the entity to adopt accounting standards prepared by so-called “for-profit entities”. By way of example, any such entity will normally adopt the same accounting for financial instruments, property and plant and revenue that is adopted by a so-called “for-profit” entity. This is true not only for private schools but for many other “not-for-profit” entities” of a charitable nature.

It would be a serious public relations mistake for such entities to be forced to report that they are “for-profit” entities, when under their constitutions they are by nature “not-for-profit”.

From my analysis, even the term “not-for-profit activities” is not perfect, for an entity may conduct activities where it merely seeks to recover costs. In such a case it is likely “for-profit” accounting standards will still be relevant to the entity. It is where an entity gives away services or goods at less than cost that difficulties arise in the application of “for-profit” accounting standards. Even then the non-applicability of “for-profit” accounting standards is limited to situations where cash flows are ordinarily used when

applying impairment tests (to say inventory or property, plant and equipment and intangibles).

Hence, I believe, the AASB should identify situations in which “for-profit” standards are inapplicable to certain activities of so-called “not-for-profit” entities and make the relevant exclusions to those standards. This does not involve defining a “not-for-profit entity” (or equivalent) but rather identifying the characteristics of those transactions that give rise to the non-applicability of “for-profit” accounting standards. It seems to me such situations are limited to very few standards as explained above.

Whether this approach is relevant to certain Government entities is a question I will let others debate, but my general view is that many general Government entities have characteristics so different to non-Government entities, I doubt whether trying to fit all these entities under one conceptual umbrella is achievable in an easily understandable manner.

Further, I would like to add that I believe convergence with New Zealand accounting standards is less relevant than convergence with the accounting standards of countries like USA, Canada, and the UK and particularly the IASB standards.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Keith Alfredson'.

Keith Alfredson