

19 April 2023

The Chair  
Australian Accounting Standards Board  
PO Box 204  
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**via email:** [standard@asb.gov.au](mailto:standard@asb.gov.au)

Dear Keith

## **AASB Invitation to Comment: ITC 50 *Post-implementation Review – Income of Not-for-Profit Entities***

Deloitte is pleased to respond to Australian Accounting Standards Board ('AASB' or 'Board') Invitation to Comment: ITC 50 *Post-implementation Review – Income of Not-for-Profit Entities* (ITC 50).

We appreciate the opportunity to comment on the Board's post-implementation review (PIR) of the requirements in Australian Accounting Standards regarding the accounting for income of not-for-profit (NFP) entities.

We are fully supportive of the Board's efforts in making the income recognition requirements easier and more relevant for the NFP sector and would like to note the following comments around certain topics, including:

- Sufficiently specific criterion – The assessment of sufficiently specific is one of the most judgemental areas for NFP entities when applying the income recognition requirements. In practice, we note that many NFP entities find the assessment of sufficiently specific to be very challenging. We believe that it would be appropriate for further practical guidance to be issued by the Board on the assessment of sufficiently specific.
- Capital grants – We have observed that due to the criterion 'identified specifications' not being clearly defined in AASB 1058, NFP entities have found the application of the term in practice to be highly judgemental. We believe that the Board should include more guidance around what the level of specificity is required to meet the 'identified specifications' criterion under AASB 1058.15(a).
- Principal vs. agent – We note that a contract with the obligation to transfer cash rather than the provision of goods or services is one of the complex post implementation issues arising from AASB 1058 and the assessment of principal vs. agent is one of the key decisions that NFP entities need to make to properly account for their income (gross versus net revenue). We believe that additional examples would be beneficial in providing guidance to NFP entities in assessing principal vs. agent and in cases where the obligation under the contract is to transfer cash rather than the provision of goods or services.

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- Termination for convenience clauses – In our view, when accounting for termination for convenience clauses, it is important to distinguish between clauses that are substantive in nature and those that are protective in nature. Where the clauses are considered substantive in nature, such as in cases where these clauses are exercised in practice or where there is a history of refunds, the total amount of funding should be treated as a financial liability at inception by the recipient (View a in ITC 50).

In line with the above points raised, we believe the Board should consider formalising the tables provided in ITC 50 (covering the possible variations of obligations of the contract along with the assessment of sufficiently specific and the possible variations of obligations of the contract along with the assessment of the identified specification criterion) and current guidance contained in the AASB Staff FAQ around research grants. Embodying these materials into GAAP as formal authoritative material (e.g., inclusion as part of Appendix F of AASB 15 or Appendix B of AASB 1058) would help reduce the diversity in practice.

Our detailed responses to the AASB Questions for respondents in ITC 50 are outlined in the Appendix.

Please contact me at +61 3 9671 7871 or [moverton@deloitte.com.au](mailto:moverton@deloitte.com.au) if you wish to discuss any of our comments.

Yours sincerely



**Moana Overton**  
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## APPENDIX – DETAILED RESPONSES TO THE AASB QUESTIONS FOR RESPONDENTS IN ITC 50

### Topic 1: Sufficiently specific criterion and the legal interpretation of Agreements

**Regarding the term sufficiently specific in AASB 15 Appendix F, do you have any comments about:**

**Question 1. the application of the term in practice?**

The assessment of sufficiently specific is one of the most judgemental areas for NFP entities when applying the income recognition requirements. This is an important and fundamental concept as the specificity of performance obligations (together with enforceability) will determine whether the transaction is accounted for under AASB 1058 (which could result in immediate income recognition) or under AASB 15 (which may result in income deferral). In practice, we note that many NFP entities find the assessment of sufficiently specific to be very challenging.

We believe that this is an area that the Board should provide more guidance on to assist entities in making this determination in a consistent manner to ensure that comparability of NFP financial statements is not impacted.

**Question 2. the extent of specificity needed to meet the sufficiently specific criterion for a contract (or part of a contract) to be within the scope of AASB 15?**

We note that while paragraph F20 of AASB 15 provides four aspects to consider when assessing whether a promise is sufficiently specific, paragraph F22 of AASB 15 further states that no specific number or combination of the conditions need to be specified in an agreement for the promise to be sufficiently specific. Accordingly, we believe this has resulted in implementation challenges as entities need to apply judgement when determining whether a promise is sufficiently specific.

**Question 3. Whether differences in application exist?**

**If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.**

We note that due to the level of inherent judgement involved in the assessment of sufficiently specific, this may result in differences in practice with NFP entities potentially landing on a different conclusion (and therefore different revenue accounting) for similar government grant contracts.

**Question 4. In addition to the existing guidance in AASB 15 Appendix F, is there any other guidance that would help you determine whether a contract (or part of a contract) is sufficiently specific? If so, please provide details of the guidance and explain why you think it would be useful.**

In line with the above points raised, we believe it is appropriate for further practical guidance to be issued by the Board on the assessment of sufficiently specific. We note that while the current guidance makes sense conceptually, it is complex to apply in practice and thus it is important for the Board to issue guidance that is user-friendly and caters to the different terms and conditions commonly seen in NFP agreements.

On that note, we find that the table provided in ITC 50 covering the possible variations of obligations of the contract along with the assessment of sufficiently specific to be very helpful and we believe the Board should consider formalising this as authoritative guidance (e.g., inclusion as part of Appendix F of AASB 15) to help reduce the diversity in practice.

**Topic 2: Capital grants**

**Regarding the term identified specifications in AASB 1058 paragraph 15(a), do you have any comments about:**

**Question 5. the application of the term in practice?**

We have observed that due to the criterion 'identified specifications' not being clearly defined in AASB 1058, NFP entities have found the application of the term in practice to be challenging.

**Question 6. the extent of specificity needed for a contract to meet the requirements of AASB 1058 paragraph 15(a)?**

We believe that the Board should include more guidance around what the level of specificity is required to meet the 'identified specifications' criterion under AASB 1058.15(a). For example, if a grant contract requires a NFP entity to use the funds to construct an aged care facility, would that be considered sufficient to meet the 'identified specifications' criterion? Alternatively, would further detail such as location, bed numbers, care levels available be required for the agreement to be considered to meet the 'identified specifications' criteria?

**Question 7. whether differences in application exist because of the use of the term identified specifications?**

**If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.**

We have not experienced differences in application arising from the use of the term 'identified specifications' as the capital grant contracts that we have come across are for larger amounts of funds and contain very specific requirements around the constructed asset/facility therefore having met the 'identified specifications' criteria. However, we do note that there may be differences in practice in cases where the capital grant contracts are for smaller amounts of funds and therefore may only contain minimal level of specifications around the asset which may result in the need to apply judgement due to the lack of clear definition and guidance around the level of specificity required to meet the criterion 'identified specifications' under AASB 1058.15(a).

**Question 8. In addition to the existing illustrative examples in AASB 1058, is there any other guidance that would help you determine when to recognise revenue following the transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity? If so, please provide details of the guidance and explain why you think it would be useful.**

As noted above, we do consider further guidance to be appropriate, and find the table provided in ITC 50 helpful in considering the assessment of the identified specification criteria.

**Topic 3: Differences between management accounts and statutory accounts and alternative revenue recognition models**

**Question 9. Do you have any comments regarding the timing of revenue recognition required by AASB 15 and AASB 1058 of NFP entities? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also helpful.**

We are aware that there are differences between the management accounts and statutory accounts for NFP entities, especially in cases where the income is recognised upfront under AASB 1058, but the NFP entity still have services to perform over a specified period (where expenses are yet to be fully incurred). In addressing this difference, we have observed that many NFP entities would utilise the disclosures in the financial statements to better explain its story to users of the accounts – e.g. voluntary disclosures around the restrictions of funds or use of a ‘special purpose reserve’ to quarantine and keep track of such restricted funds (where income has been recognised upfront but there are future services to be performed or expenses yet to be fully incurred). Accordingly, we do not see a need for standard-setting to address this issue as it can be addressed, if desired, via voluntary disclosure.

**Question 10. Do you have any views on alternative approaches to recognising revenue in the NFP sector? For example, should an NFP entity initially recognise a liability and recognise revenue:**

- a) based on a common understanding between the entity and the transfer provider of the manner in which the entity is expected to use the inflows of resources;
- b) where there are terms in law or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity;
- c) on a systematic basis over the periods in which the entity recognises as expenses the related costs for which a grant is intended to compensate; or
- d) where the outflows of resources are incurred in accordance with the requirements set out in a binding agreement.

**If so, please provide your views on your preferred alternative(s) above or another alternative approach.**

While we do not immediately see an alternative approach to recognising revenue in the NFP sector, we believe it is important for the Board to issue guidance around the assessment of sufficiently specific to assist entities in applying the current income requirements consistently to reduce the diversity in practice.

On alternative approach (c), as it is based on AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* (AASB 120) which is utilised by for-profit entities, we do note that one of the merits not mentioned in the ITC of applying AASB 120 for government grants in the NFP space is transaction neutrality for some industries (e.g., aged care and education sector) that contain both for-profit and NFP entities. However, we are not of the opinion that this would be sufficiently persuasive to merit the introduction of the alternative approach.

**Topic 4: Principal v agent, including the appropriate recognition of financial liabilities**

**Regarding the recognition of financial liabilities, if an NFP entity’s only obligation is to transfer funds received to other entities, do you have any comments on:**

**Question 11. the determination of whether the entity is a principal or an agent?**

We note that a contract with the obligation to transfer cash rather than the provision of goods or services is one of the complex post implementation issues arising from AASB 1058 and the assessment of principal vs. agent is one of the key decisions that a NFP entity needs to make to properly account for its income (gross versus net revenue).

As we noted in our submission dated 11 March 2022 on AASB ED 318 *Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases* (ED 318), we are supportive of the Board clarifying the analysis regarding the initial recognition of a financial liability. We note that should the Board wish to address this issue by amending Example 3A of AASB 1058, we recommend the example be improved by linking any derecognition and pass-through analysis to the principal versus agent assessment, to appropriately address the subsequent accounting for the financial liability and related income (gross versus net revenue). We also believe that the example could be improved by addressing the initial measurement of the financial liability, specifically if the value of the financial liability equates to the value of the financial asset (cash) received – e.g., in the case where the grantor has the ability to instruct for all amounts to be repaid immediately, is it therefore akin to an on-demand liability and consequently, the fair value of the liability is its face value being the amount payable on demand, discounted from the first date that the amount could be required to be paid in accordance with AASB 13.47.

**Question 12. whether differences in application exist in concluding whether an NFP entity is a principal or an agent? If there are differences in application, do they significantly affect the comparability of financial statements?**

**If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.**

Due to the inherent judgement in the assessment of principal vs. agent, we note that there could be differences in application as there are many complexities present in the various sectors.

It is also important to note that the difference between principal vs. agent accounting will have flow-on consequences on the reporting requirements for charities reporting under the Australian Charities and Not-for-profit Commission (ACNC). NFP entities that apply principal accounting will report gross-up revenue and expenses while NFP entities that apply agency accounting will report it net (no recognition of revenue on disbursement of funds) – this may result in charities reporting under ACNC to move between tiers as the ACNC reporting tiers are assessed based on annual revenue. Based on the entities' determination of its role as principal versus agent, this will correspondingly materially change their reported revenue on which ACNC reporting requirements are based.

**Question 13. In relation to determining whether an NFP entity is a principal or an agent, do you have examples of specific scenarios where there are practical challenges and application issues?**

**If so, please provide details of the complexities associated with this determination, such as the level of discretion the entity has in determining to whom funds will be passed, and illustrate the relevant circumstances, their significance and the prevalence of any differences in application.**

The issue of principal vs. agent is present in various sectors in the NFP space – this may be present in cases where a NFP entity has received grant funding and is required to disburse grants to other entities under the terms of the grant. A more specific example is also present in the education sector where a school has received a donation and per written agreement is required to provide cash scholarships to the specific students.

In terms of complexities resulting in judgemental implementation issues, we believe the Board should provide guidance around the impact of the following items on the principal vs agent determination:

- additional terms around interest income for cash scholarships
- charging of a certain administrative fee (we understand many funds disbursement entities charge a certain fee to the grantor for its services)
- the illustration of a common school scenarios between college entity and the foundation (e.g., the grantor donates funds to the foundation which in turn passes it on to the college entity).

**Question 14. Is there any guidance that would help you determine whether an NFP entity is a principal or an agent? If so, please provide details of the guidance and explain why you think it would be useful.**

We believe that additional examples are beneficial in providing guidance to NFP entities in assessing principal vs. agent and in cases where the obligation under the contract is to transfer cash rather than the provision of goods or services. However, we believe for the examples to be helpful to NFP entities, it is important that the examples should be more complex and touch on various intricacies to draw out judgemental implementation issues.

#### **Topic 5: Grants received in arrears**

**Do you have any comments regarding:**

**Question 15. the accounting for grants received in arrears, particularly where some of the work to be funded by the grant is performed before the funding is received? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful;**

We note that the current guidance contained in the AASB Staff FAQ around accounting for a grant received in arrears has been helpful to NFP entities in this regard and thereby reducing any diversities in practice. When it comes to whether it is appropriate to recognise a receivable for grants received in arrears in the scope of AASB 1058, we believe that the assessment of enforceability is key as the ability to recognise a receivable would be based on whether the recognition criteria in AASB 9 have been met – specifically, whether there is a contractual right to receive cash or another financial asset from the grantor.

**Question 16. whether differences in application exist in the accounting for grants received in arrears exists? If so, please provide examples that illustrate the relevant circumstances, their significance and the prevalence of any differences in practice.**

As mentioned above, we believe that if NFP entities are correctly applying the current guidance contained in the AASB Staff FAQ around accounting for a grant received in arrears, this should ideally eliminate differences in application and thereby reduce any diversities in practice. Given the demonstrated usefulness of this guidance, we believe the Board should consider formalising it as authoritative guidance within the Standards.

#### **Topic 6: Termination for convenience clauses**

**Regarding accounting for termination for convenience clauses:**

**Question 17. do you support view (a) or view (b) regarding recognising a liability in relation to unspent funds? Please explain your rationale, including references to Australian Accounting Standards. Examples to illustrate your responses are also most helpful;**

A common example of a termination for convenience clause we have seen in practice is as follows: “The Grantor may terminate or suspend this Deed, in whole or in part, by notifying the Recipient in writing that this Deed is terminated or suspended. On termination, any unspent funds held by Recipient must be returned to the Grantor. For the avoidance of doubt the Grantor has an unfettered discretion to terminate the Deed in accordance with this clause”.

In the circumstances outlined above, the Grantor has the sole discretion to terminate the Deed and this is out of the control of the recipient. Even if the recipient is performing in accordance with contractual expectations, the grantor can still terminate using this clause and demand repayment. Accordingly, the recipient does not have ‘an unconditional right to avoid delivering cash to settle a contractual obligation’. Therefore, the total amount of funding should be treated as a financial liability at inception by the recipient entity. Assuming this is a contract under AASB 1058, the liability is then only extinguished as the NFP entity spends the funds which it can then recognise as income under AASB 1058.

We note that the termination for convenience clauses are common within funding agreements entered into with the government sector and can be viewed by some as being protective in nature and to provide flexibility to government where required. According to this view, there is no obligation on the part of the recipient to repay or a right for government to collect until the government serves a written notice and thus, no financial liability should be recognised by the recipient until there is a specific request for repayment.

In our experience, we note that these clauses are exercised in practice and would be considered substantive in nature where, for example, the grantor experiences a budget cut and would in turn either terminate or reduce the scope of contracts with NFP entities that it had granted funds to.

**Question 18. do you have any other comments? If so, please provide your views, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.**

In our view, it is important to distinguish between clauses that are substantive in nature and those that are protective in nature. Where the clauses are considered substantive in nature (rather than just protective), such as in cases where these clauses are exercised in practice or there is a history of refunds, the total amount of funding should be treated as a financial liability at inception by the recipient (View a in ITC 50).

#### **Topic 7: Accounting for research grants**

**Question 19. Do you have any comments regarding the accounting for research grants (other than termination for convenience clauses, which are covered in Topic 6)?**

**If so, please provide your views on the requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.**

We note that the current guidance contained in the AASB Staff FAQ around research grants has been helpful to NFP entities as it contains useful flowcharts and practical application examples of the nature of outputs around the assessment of performance obligations. We believe that if NFP entities are correctly applying the current guidance contained in the AASB Staff FAQ around research grants, this should ideally eliminate differences in application and thereby reduce any diversities in practice.

Given the demonstrated usefulness of the current guidance contained in the AASB Staff FAQ around research grants, we believe the Board should consider formalising it as authoritative guidance (e.g., inclusion as part of Appendix F of AASB 15 or Appendix B of AASB 1058) to help reduce diversity in practice.

#### **Topic 8: Statutory receivables**

**Do you have any comments regarding:**

**Question 20. the subsequent accounting treatment of statutory receivables? If so, please provide your views, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful;**

Upon the initial application of AASB 9 to statutory receivables via the addition of Appendix C to AASB 9, we observed confusion as to whether the expected credit loss model applied to statutory receivables, as the amendments to AASB 9 only covered the initial measurement of such receivables. Given the subsequent measurement of statutory receivables was not addressed by the AASB, we observed in practice that NFP entities were applying the principles of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* to establish provisions for potential non-recovery of receivables (which did not lead to dissimilar outcomes to applying AASB 9's ECL method), with others obtaining actuarial assessments to build into measurement of recoverability provisions. Another potential difference in practice we have observed is the appropriate discount rate to use in the subsequent measurement of such receivables, particularly whether the principles of AASB 9 or AASB 137 should be applied in determining such rates. We believe it would be helpful for the Board to clearly articulate their intention as to the ongoing measurement basis in order to achieve consistency in practice.



**Question 21. whether the initial measurement of statutory receivables in accordance with AASB 9 added considerably to the workload of preparers and auditors – either on implementation of Appendix C to AASB 9 or subsequently? If so, please provide your views on the initial measurement requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.**

From our observations, we note that most of the implementation challenges arise from the subsequent accounting of statutory receivables specifically around the provisioning of receivables for collectability as it was not addressed by the AASB, as opposed to the initial measurement of statutory receivables.

#### **AASB General Matters for Comment**

**In addition to the specific matters for comment on each topic, the AASB would also particularly value comments on the following:**

**Question 22. Does the application of AASB 1058 and AASB 15 by NFP entities adversely affect any regulatory requirements for NFP entities?**

We note that the application of revenue recognition requirements under AASB 1058 and AASB 15 does have flow-on regulatory impacts. As mentioned in our response to question 12 above, difference between principal vs. agent accounting will have flow-on consequences on the reporting requirements for charities reporting under the ACNC. Based on the entities' determination of its role as principal versus agent, this will correspondingly materially change their reported revenue on which ACNC reporting requirements are based.

**Question 23. Does the application of AASB 1058 and AASB 15 by NFP entities result in major auditing or assurance challenges?**

We note that as there are certain key areas of AASB 1058 and AASB 15 that are highly judgemental (such as the assessment of sufficiently specific and principal vs. agent) which significantly impact revenue recognition, this may make obtaining sufficient appropriate audit evidence to support the judgments challenging in practice. However, we believe that the audit of such judgments is commonplace and would not consider any changes to be necessary purely for the purposes of auditability.

**Question 24. Overall, do AASB 1058 and AASB 15 result in financial statements that are more useful to users of NFP entity financial statements?**

We believe that on overall basis, AASB 1058 and AASB 15 do result in financial statements that are more useful to users of NFP entity financial statements. We note that while the current guidance makes sense in principle, it is complex to apply in practice and thus it is important for the Board to issue guidance that is user-friendly that caters to the different terms and conditions commonly seen in NFP agreements.

**Question 25. In your view, do the benefits of applying the requirements of AASB 1058 and AASB 15 exceed the implementation and ongoing application costs for NFP entities?**

We believe that with additional guidance to be issued by the Board around the highly judgemental areas, the benefits of applying the requirements of AASB 1058 and AASB 15 will exceed the implementation and ongoing application costs for NFP entities.

**Question 26. Are there any other matters that should be brought to the attention of the AASB as it undertakes this PIR on the accounting for income of NFP entities?**

We have no further comments.