

31 March 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board (AASB)
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Via website: www.aasb.gov.au

Dear Keith

Invitation to Comment 50, Post-implementation Review – Income of Not-for-Profit Entities

As the representatives of over 300,000 professional accountants globally, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to comment on the above Invitation to Comment (“the ITC”). We make this submission on behalf of our members and in the public interest.

As noted in the ITC, the issuance of AASB 1058 *Income of Not-for-profit Entities* (AASB 1058) and the not-for-profit (NFP) specific implementation guidance to AASB 15 *Revenue from Contracts with Customers* (AASB 15 Appendix F) has led to a number of implementation challenges over the last three years. The AASB has responded to this feedback, developing and issuing five amendments to the standards which have been complemented by educational material to support implementation and application, including frequently asked questions (FAQs), key facts documents and webinars.

We commend the AASB for its commitment to address the numerous issues raised by stakeholders in relation to this topic. We also welcome the post-implementation review (PIR) as a means to seek more comprehensive feedback on if, and how, the AASB could address the ongoing implementation challenges still being identified by stakeholders. We have sought feedback from our members and stakeholders in providing our views to this consultation.

Member feedback

Despite the many implementation concerns that have been raised, feedback we have received indicates that, on a cost / benefit basis, there is insufficient justification for any further amendments to AASB 1058 and AASB 15 Appendix F at this point in time. Many NFPs and their advisors have invested considerable effort to implement the accounting requirements, including modifying their systems and approaches to address key judgement issues. Feedback we have received also indicates that stakeholders have different views on if, and how, these judgemental issues can be resolved by standard-setting given the diverse nature of circumstances relating to income / revenue, and interpretations of fact when applying the accounting requirements to these circumstances.

We note that the ITC correctly identifies the major and diverse challenges being encountered by our members in their various capacities, including as both preparers and auditors. These include:

- How the sufficiently specific criterion could be interpreted and applied to the diverse types of grants in the NFP sector.
- Accounting for the liability arising from the standard “termination for convenience” clause.
- Accounting for principals or agents which may be inconsistent with the accounting in AASB 9 *Financial Instruments* which recognises financial assets and financial liabilities on receipt rather than as a “pass-through” arrangement.
- How to address the stakeholders’ preference for internal finance reports rather than information based on the accounting standards, reflecting an ongoing need for improved financial literacy and education in the NFP sector about key accounting principles.

While the difficulties with these issues are initially encountered by preparers, they are then also faced by auditors applying their own judgements to the interpretations made by preparers in accounting for income / revenue in accordance with AASB 1058 and AASB 15. This adds an additional layer of complexity and potential inconsistency that is proving difficult to resolve.

We support principles-based standards. However, applying the current principles to a diverse range of circumstances is complex and continued refinement to address specific fact-patterns, via standard setting activity or additional guidance, appears to be of limited value in addressing the interpretational challenges.

Key recommendations

Therefore, rather than amending AASB 1058 and AASB 15 at this time, we recommend that the AASB focuses on the development of the Simplified Accounting Requirements (Tier 3 Standard for Not-for-Profit Private Sector Entities). By providing a more suitable reporting framework for smaller NFPs, especially for those who have already adopted AASB 1058 and AASB 15 Appendix F, we are of the view that many of the practical challenges arising from these standards could be minimised.

Once the Tier 3 Standard for Not-for-Profit Private Sector Entities has been developed and implemented, the AASB could again focus on addressing the challenges faced by NFPs that adopt the Tier 1 and Tier 2 standards, including AASB 1058 and AASB 15. This would facilitate a more informed debate about the way in which AASB 1058 and AASB 15 can be best revised or refined to better reflect the reporting requirements of larger NFPs and support the move towards more widely accepted, consistent reporting outcomes.

It would also allow sufficient time for the completion of the following relevant international projects that may be of assistance in developing suitable solutions to the implementation challenges:

- the International Public Sector Accounting Standards Board (IPSASB) project on revenue
- the International Financial Reporting for Non-Profit Organisations (IFR4NPO) project to develop International Non-profit Accounting Guidance (INPAG)

We recommend that, in the interim, the AASB considers collating and presenting its guidance materials, illustrative examples, and FAQs relating to income for NFP entities in an Appendix to AASB 1058, or in a similar presentation that gives this existing guidance more authority. This will also make the guidance more readily accessible and adaptable.

Specific feedback on issues

Based on the position expressed in our overall conclusion above, we believe that it is counter-productive to respond to the detailed questions in the ITC at this time. Such detailed analysis should be deferred until such time that the Tier 3 Standard for Not-for-Profit Private Sector Entities and the IPSASB and IFR4NPO international standard setting projects are finalised.

If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

Simon Grant FCA
Group Executive – Advocacy and International
**Chartered Accountants Australia and
New Zealand**

Dr Gary Pflugrath FCPA
Executive General Manager, Policy and
Advocacy
CPA Australia