

14 August 2015

Kris Peach
Australian Accounting Standards Board
Level 7, 600 Bourke Street
Melbourne, VIC 3000

Online submission: www.aasb.gov.au

Dear Ms Peach

Submission on Exposure Draft ED 260: Income of Not-for-Profit Entities

Thank you for the opportunity to comment on the Exposure Draft on the proposed Accounting Standards AASB 2015-X and AASB 10XX (the ED). CPA Australia and Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ) have considered the Exposure Draft ED 260: *Income of Not-for-Profit Entities* and our comments are set out below.

CPA Australia and Chartered Accountants ANZ represent over 250,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia in Australia and internationally.

We support the Australian Accounting Standards Board's (AASB) proposals to provide guidance to assist not-for-profit entities apply the principles of AASB 15 *Revenue from Contracts with Customers*, and replace the income recognition requirements in AASB 1004 *Contributions*. We agree with other constituents that the income recognition model in AASB 1004 *Contributions* has resulted in divergence in practice, and we welcome the principles-based income recognition model proposed in the ED.

We believe not-for-profit entities could benefit from the development of further guidance and/or illustrative examples to assist in the application of the proposals, particularly given the comparatively lower level of resources often found in the financial reporting function of many private sector not-for-profit entities. In addition, we believe not-for-profit entities should be granted more time to prepare for the new requirements, and therefore recommend the effective date of the proposed standard be postponed to 1 January 2019.

Representatives of the Australian Accounting Profession



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Our detailed responses to specific questions are included in the attached appendix. Please note we have only included those questions to which we have provided a response. If you have any questions regarding this submission, please do not hesitate to contact either Ram Subramanian CPA (CPA Australia) ram.subramanian@cpaaustralia.com.au or Dr Michael Fraser CA (Chartered Accountants ANZ) michael.fraser@charteredaccountantsanz.com.

Yours sincerely



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APPENDIX

1. **In relation to the AASB's proposal to replace the reciprocal / non-reciprocal transfer distinction in AASB 1004 with income recognition requirements based on whether a not-for-profit entity needs to satisfy a performance obligation:**
 - (a) **do you agree that this proposal would provide a faithful depiction of a not-for-profit entity's financial performance?**
 - (b) **if not, what alternative approach to income recognition would you recommend for not-for-profit entities? Please provide your reasons.**

We agree with the approach proposed within the ED. We agree it is appropriate to apply the principles of AASB 15 Revenue from Contracts with Customers to not-for-profit entities if the transaction occurs in a contract which contains sufficiently specific performance obligations.

2. **In relation to the AASB's proposal that, to qualify as a performance obligation, a not-for-profit entity's promise to transfer a good or service to a counterparty in a contract must be 'sufficiently specific' to be able to determine when the obligation is satisfied (see paragraph IG13 of Part A):**
 - (a) **do you agree with this proposal?**
 - (b) **if not, what factors or criteria should apply to determine whether a not-for-profit entity has a performance obligation? Please provide your reasons.**

We agree with the proposal as contained in the ED that requires the not-for-profit's promise to transfer a good or service to a counterparty must be "sufficiently specific" to be able to determine when the obligation is satisfied. However determining whether the promise is sufficiently specific will often require judgment and it may be necessary to add guidance and or illustrative examples in addition to Examples 3A, B and C contained on page 57 of the Illustrative Examples. Specific areas where additional guidance would be beneficial include; implicit rather than explicit performance obligations; and refund obligations that are implicit rather than explicit. For example medical research institutes in receipt of grant funding for specific projects will often be subject to strict requirements surrounding the nature of the work undertaken and progress reporting. Funding contracts will often including repayment clauses.

3. **Do you agree with the proposal in paragraphs IG19-IG30 of Part A that a not-for-profit entity would recognise a donation component in a contract with a customer as immediate income only if:**
 - (a) **a qualitative assessment of available evidence indicates that the customer intended to make a donation to the not-for-profit entity; and**
 - (b) **the donation component is separately identifiable from the goods or services promised in the contract? (See also paragraphs BC36-BC49 of the Basis for Conclusions.)****If not, under what circumstances should a not-for-profit entity identify and account separately for a donation that is provided as part of a contract with a customer?**

We agree with the criteria specified in the ED and the supporting examples provided to determine if the donation component should be separated from the goods or services promised in the contract.

4. In relation to the AASB's proposals to:
- (a) permit any not-for-profit entity to recognise volunteer services as income if the fair value of those services can be measured reliably; and
 - (b) carry forward the requirement in paragraph 44 of AASB 1004 that particular public sector entities must recognise volunteer services if those services would also have been purchased if they had not been donated, the AASB seeks views on:
 - (a) whether the requirements (if any) for the recognition of volunteer services should be the same for all not-for-profit entities, regardless of whether they operate in the public or private sector; and
 - (b) if your answer to (a) is 'yes', whether the recognition of volunteer services should be:
 - (i) optional, provided that the fair value of those services can be measured reliably; or
 - (ii) required if those services would also have been purchased if they had not been donated. (See also paragraphs BC59-BC63 of the Basis for Conclusions.)

We believe the provision of information by not-for-profits about volunteer services received should be encouraged. However at this time we believe the option to record income from such services should be limited to the current scope of AASB 1004 for the public sector i.e. to only record volunteer services that can be reliably measured and only if those services would have been purchased if they had not been donated. Given the amount of volunteer services provided to the sector and the inherent issues in determining fair value we believe additional research, education and sector consultation should occur before the option to record income is extended beyond the current scope for the public sector.

The disclosure of the nature and amount in hours of volunteer services however should be encouraged.

5. Do you agree with the proposal in paragraph 38 of [draft] AASB 10XX that, when inventories are donated to a not-for-profit entity other than as part of a contract with a customer, assessments of whether the donations are material should be made on an individual transaction basis without reassessment at a portfolio or other aggregate level? (See also paragraphs BC50-BC51 of the Basis for Conclusions.)

We agree that materiality should be made on an individual transaction level with no reassessment at an aggregate or portfolio required.

6. Australian Accounting Standards applicable to for-profit entities do not include a definition of 'contributions by owners'. Further, concerns have been expressed by some that the definition of 'contributions by owners' in AASB 1004 is too narrow. Do you consider that a definition of 'contributions by owners' is still necessary, or appropriate, in Australian Accounting Standards? If so, would you prefer using:
- (a) the definition of 'contributions by owners' presently in AASB 1004; or
 - (b) the definition of 'ownership contributions' in the Public Sector Conceptual Framework issued by the International Public Sector Accounting Standards Board (IPSASB)? (See also paragraphs BC84-BC91 of the Basis for Conclusions)

We agree with the proposal not to define 'contributions by owners' and concur with the reasoning set out in paragraphs BC84-BC91 of the Basis for Conclusions.

9. Do you agree with the proposed transitional provisions in Appendix C of [draft] AASB 10XX? In particular:
- (a) do you agree with the transitional provisions for non-financial assets and finance lease assets and liabilities, the cost of which was not measured at fair value on initial recognition; and
 - (b) do any other issues warrant additional transitional provisions and, if so, which transitional provisions do you suggest? (See also paragraphs BC104-BC109 of the Basis for Conclusions.)

Where an asset has been received at less than fair value prior to the proposed new standard becoming effective, the not-for-profit entity will be required to determine the fair value of the asset when it was originally acquired. The entity will also have to provide for any additional depreciation or impairment that may arise on any additional fair value calculated. We recommend a transitional provision be included to allow entities to continue to recognise such assets at their original recorded value, with no fair value adjustment required on transition to the proposed new standards.

10. Are there any regulatory issues or other issues arising in the Australian Environment that may affect the implementation of the proposals, particularly any issues relating to:
- (a) not-for-profit entities; and
 - (b) public sector entities, including GAAP/GFS implications (discussed above)

We note the International accounting Standards Board has delayed the application date of IFRS 15 *Revenue from Contracts with Customers* by one year, and we presume the AASB will follow suit with AASB 15. However, we believe many smaller private sector not-for-profit entities will require more time to comprehend and implement the significant new requirements. We therefore suggest the AASB considers delaying the start date for not-for-profit entities by at least another year, to 1 January 2019.