

8 November 2019

Australian Accounting Standards Board  
Level 14, 530 Collins Street, Melbourne  
Melbourne Vic 3000  
By email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Dear Board Members,

**Fatal Flaw Response - Amendments to Australian Illustrative Examples for Not-for-Profit Entities accompanying AASB 15**

We are writing to express the University of Melbourne's concerns with the new revenue and income standards, AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities; and the Not-for-Profit application of these*.

The Not-for-Profit guidance, illustrative examples and recently issued FAQ are not in-line with the intentions of issuing these new standards. We believe the intention of developing the new standards was to overcome the divergence in accounting treatment and to present financial statements that reflect the economic reality of transactions, the new standards have not achieved this.

AASB 15, paragraph 1 states, *'the objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.'* Additionally, the preface to AASB 1058 states, *'this Standard clarifies and simplifies the income recognition requirements that apply to not-for-profit (NFP) entities, in conjunction with AASB 15 Revenue from Contracts with Customers.'*

Reasons why we believe the standards do not achieve the above objectives are explored below.

**1. Users of our financial statements will not be provided with useful and clear information about the financial performance and position of the University**

We believe the application of AASB 15 will not reflect the economic reality of certain transactions, in particular research, and as such will not provide useful information to users of our financial statements. The recent FAQ issued by AASB staff will result in a significant amount of our research revenue being recognised at the end of the contract or even 12 months after the contract has expired. Recognising revenue 12 months after the contract has expired will not provide useful information to the users of our financial statements and will potentially be a misleading representation of the financial position. It is likely that users of our financial statements will need to adjust our financial statements to understand and analyse our financial performance and position.

**2. Divergence in judgement and application**

We are almost at the end of the first year since implementation without an agreed or consistent application of the standards by audit firms and Auditor Generals. What has eventuated as an example are different accounting treatments for the same types of

revenue. This has created significant difficulty in the implementation process and assessment of contracts.

For example, across the Group of 8 Universities, some are suggesting NHMRC revenue is recognised 12 months after the contract has expired and others suggesting it is recognised upfront when received. This causes significant divergence across the sector and does not allow comparability.

### **3. Complexity**

One of the aims of the standard was to simplify the income recognition requirements that apply to not-for-profit entities. However, we believe the standards are overly complex, require significant analysis and judgement and are increasingly difficult to implement. To address the complex and diverse requirements of the new standard, the University developed a revenue assessment tool to analyse agreements resulting in over 50 different criteria to be addressed. Despite the detailed framework and detailed output, early discussions with our auditors indicate further work is required to form a conclusion. No other standard has this level of complexity. To finalise the implementation, we expect significant costs to implement systems and process to support the new standards without any benefit to the University.

In conclusion, we believe the new revenue and income standards applicable to Not-for-Profit entities in their current form do not meet the intention of the standards, are not meaningful to the users of our financial statements, are overly complex and will cause further divergence in application of the standards across the University sector.

We ask that these concerns are considered, as once divergent treatment occurs it is very difficult to rectify. The University of Melbourne is happy to work with the AASB to help identify solutions which may include revisiting the standard or like the exemption provided for capital grants, granting an exemption for 'pure research' type grants such as ARC and NHMRC.

Yours sincerely,



**Katerina Kapobassis**  
**Chief Financial Officer**