



**Australian Government**

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**Australian Accounting  
Standards Board**

# Feedback Statement

## Post-implementation Review – Income of Not-for-Profit Entities

September 2024



## Enquiries

This AASB staff publication is available on the AASB website.

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# In Brief

## Introduction

In November 2022, the AASB issued [Invitation to Comment 50 Post-implementation Review – Income of Not-for-Profit Entities](#) (ITC 50) seeking feedback from stakeholders to enable the AASB to conclude on the overall effectiveness and efficiency of AASB 1058 *Income of Not-for-Profit Entities* and AASB 15 *Revenue from Contracts with Customers* in meeting its original objectives. This includes whether the Standards remain appropriate for NFP entities. To ensure stakeholders had sufficient time to respond to the ITC, the comment period closed on 31 March 2023.

Using the PIR decision-making process framework, the Board considered and deliberated on stakeholders' feedback, staff analysis and preliminary recommendations on the topics covered in ITC 50 during the following meetings:

(a) October 2023 meeting:

- (i) Topic 3: Differences between management accounts and statutory accounts and alternative revenue recognition models (See [Agenda Paper 3.2.2 Alternative Models](#)).
- (ii) General matters (See [Agenda Paper 3.2.3 General Matters](#)).

(b) November 2023 meeting:

- (i) Topic 1: Sufficiently specific criterion and the legal interpretation of agreements (See [Agenda Paper 7.2 Sufficiently specific](#)).
- (ii) Topic 2: Capital grants (See [Agenda Paper 7.3 Capital grants](#)).
- (iii) Topic 6: Termination for convenience clauses (See [Agenda Paper 7.4 TFC Clauses](#)).

(c) March 2024 meeting:

- (i) Topic 4: Principal versus agent (See [Agenda Paper 8.1 Principal versus agent](#)).
- (ii) Topic 5: Grants received in arrears (See [Agenda Paper 8.2 Grants received in arrears](#)).
- (iii) Topic 7: Accounting for research grants (See [Agenda Paper 8.3 Research grants](#)).
- (iv) Topic 8: Statutory receivables (See [Agenda Paper 8.4 Statutory receivables](#)).

At the June 2024 AASB meeting, the Board made decisions on the next steps.<sup>1</sup>

This Feedback Statement outlines the key points raised by stakeholders and the decisions made by the AASB. It is important to note that this Statement should not be read as authoritative guidance or advice.

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1 [Minutes of the 204<sup>th</sup> meeting of the AASB](#).

## Outreach and comment letters

Following the issue of ITC 50, AASB staff conducted various outreach activities as summarised below. Overall, feedback was received from over 100 organisations and individuals including preparers, regulators, users, auditors and representative bodies. Some of those who submitted written comment letters also participated in virtual outreach.

Outreach activity	Number of stakeholders	Profile of stakeholder (where possible)
Written comment letters	14	<ul style="list-style-type: none"> <li>(a) Six <u>professional services</u> firms <ul style="list-style-type: none"> <li>(i) Pitcher Partners (PP)</li> <li>(ii) PwC</li> <li>(iii) RSM</li> <li>(iv) BDO</li> <li>(v) Deloitte</li> <li>(vi) KPMG</li> </ul> </li> <li>(b) Two <u>professional bodies</u> (joint submission) <ul style="list-style-type: none"> <li>(i) CPA Australia and Chartered Accountants Australia and New Zealand</li> </ul> </li> <li>(c) Two <u>auditors</u> <ul style="list-style-type: none"> <li>(i) Australasian Council of Auditors General (ACAG)</li> <li>(ii) Corporate Audit and Assurance Services</li> </ul> </li> <li>(d) One <u>regulator</u> <ul style="list-style-type: none"> <li>(i) Australian Charities and Not-for-Profits Commission (ACNC)</li> </ul> </li> <li>(e) One <u>treasury department</u> <ul style="list-style-type: none"> <li>(i) Government of Western Australia Department of Treasury on behalf of the Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC)</li> </ul> </li> <li>(f) One <u>preparer</u> <ul style="list-style-type: none"> <li>(i) Sydney University Sport &amp; Fitness Ltd</li> </ul> </li> <li>(g) Two <u>others</u> <ul style="list-style-type: none"> <li>(i) Stuart Brown</li> <li>(ii) Dr Mark Shying CA, Swinburne University School of Business, Law and Entrepreneurship (academic)</li> </ul> </li> </ul>
Survey responses	22 respondents <sup>2</sup>	<ul style="list-style-type: none"> <li>(a) Preparer (13)</li> <li>(b) Auditor (3)</li> <li>(c) Regulator (2)</li> <li>(d) User (2)</li> <li>(e) Other (2)<sup>3</sup></li> </ul>

<sup>2</sup> The survey had a 36% completion rate indicating that not all who began the survey completed it, and not all questions were answered. The survey was set up to allow respondents to skip through questions, to acknowledge that some ITC topics may not be relevant to all respondents.

<sup>3</sup> These respondents identified as "Accounting firm auditing and assisting clients with preparing" and "Auditor, user and advisor (technical accountant)".

Outreach activity	Number of stakeholders	Profile of stakeholder (where possible)
		Respondents noted their experience as: (a) Public sector NFP (14) (b) Private sector NFP (4) (c) Both (4)
Virtual outreach sessions	123 stakeholders over four sessions	Session 1 – NFP project advisory panel members (13) Session 2 – NFP private sector entities (17) Session 3 – NFP local government entities (53) Session 4 – NFP State, Territory and Commonwealth Government entities (40)
One-on-one meetings <sup>4</sup>	10	These included meetings with preparers, accounting experts within audit offices, accounting advisors (including professional services firms) and an academic.
Other		Stakeholder forums: (a) Two ACNC Forums (Advisor and Sector) (b) South Australian Local Government committee meeting

## Literature review

During the development of ITC 50, a literature review was conducted.<sup>5</sup> Keywords such as “AASB 1058”, “AASB 15”, “AASB 10”, “AASB 12”, “AASB 1054”, “AASB 124” and “NFP”, “not for profit” or “not-for-profit” were searched in Business Source Complete, Social Science Research Network (SSRN), Research Gate and Google Scholar to identify relevant papers. Using this approach, only two relevant academic papers were identified:

- Gilchrist, D.J., West, A. and Zhang, Y. (2023). *Barriers to the Usefulness of Non-profit Financial Statements: Perspectives From Key Internal Stakeholders*. Australian Accounting Review, 33: 188-202. <https://doi.org/10.1111/auar.12401>
- Tooley, S., & Hooks, J. (2020). *Accounting for Volunteers: Enhancing Organizational Accountability and Legitimacy*. Nonprofit and Voluntary Sector Quarterly, 49(1): 93-112. <https://doi.org/10.1177/0899764019853041>

Gilchrist, West and Zhang (2023) conducted focus groups with NFP preparers, directors and auditors. The research found that many stakeholders provided feedback that AASB 15 and AASB 1058 were difficult to apply. A key concern was recognising revenue from grants and procurement processes where the outcomes related to the funding were unclear. This ambiguity created challenges for applying the “staged recognition” principle (i.e. recognise income in profit or loss when (or as) an entity satisfies its performance obligations are transferred). Stakeholders

<sup>4</sup> During the virtual outreach sessions, a polling question was used to ask attendees if they would like staff to contact them to discuss any topics in further detail. Respondents to the survey were also asked this. Stakeholders who advised they were unable to attend one of the virtual outreach sessions were also offered the opportunity to meet with staff and provide their feedback. Generally, only selected topics were discussed during these meetings.

<sup>5</sup> See [Agenda Item 9.3 NFP domestic PIRs – academic and non-academic literature reviews](#).

expressed concerns that users and directors did not understand the rationale behind the current standards, potentially leading to a misrepresentation of organisational performance. They appear to prefer the matching principle for revenue recognition.

Gilchrist et al. (2023) also highlighted concerns about the recognition of revenue related to the receipt of capital funds for the purchase of assets. The paper noted that stakeholders expressed the view that these funds should not be recognised as income as they distort the financial performance of an NFP. No suggestions were presented for a remedy for this issue, although the topic was discussed at each round table.

The timing of recognising bequests as income was another point of debate. For example, a preparer shared that their auditors required them to report bequest funding when a will was read. However, in the early stages of implementing the Standards, the preparer was not sure whether they should recognise bequest funding when probate was achieved or at the time of actual receipt of the payment.

It is important to note some limitations of the study by Gilchrist et al. (2023). The research involved a limited number of stakeholders and was conducted soon after the implementation of AASB 1058 and AASB 15 in the NFP sector. It is possible that research conducted after a longer period of applying the Standards might have revealed additional challenges or adaptations.

Tooley and Hooks (2020) focused on disclosures regarding volunteer contributions. The research found that there were limited disclosures of volunteer contributions despite organisations placing a high value on them. The primary reason for non-disclosure was the absence of regulatory requirements and resource limitations in the NFP sector. The paper however did not provide findings related to the income recognition guidance provided in AASB 1058.

An important overall caveat when attempting to draw conclusions from this literature review is that there are only a very limited number of academic papers related to Australian NFP entities to which this review could identify. Quoting Gilchrist and Simnett (2019, page 62)<sup>6</sup>: “Comparatively limited available data (especially compared with listed public companies) combined with an historical bias towards publishing research examining listed public companies in the leading accounting academic literature has traditionally acted as a constraint on the incentives and capacity of interested academics to pursue research topics related to this sector.”

While this literature review may not answer all PIR questions, it can inform the Board by highlighting user needs and challenges faced by NFPs when applying current standards.

## Relevant Considerations

The Board considered the following factors when making decisions:<sup>7</sup>

(a) **Interaction with other projects that may address concerns raised:**

- (i) **Not-for-profit (NFP) Tier 3 Reporting Framework project:** The Board acknowledged that the NFP Tier 3 Reporting Framework project (hereafter “NFP Framework project”) should not be considered as the solution to address NFP stakeholders’ concerns related

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6 Gilchrist, D.J. and Simnett, R. 2019, ‘Research Horizons for Public and Private Not-for-profit Sector Reporting: Moving the Bar in the Right Direction’, *Accounting and Finance*, 59(1): 59-85. <https://doi.org/10.1111/acfi.12439>

7 These factors are also aligned with those in the AASB PIR Decision-making Process Framework.



to AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*. However, the outcome of the NFP Framework project may address many concerns related to AASB 15 and AASB 1058 raised by smaller NFPs.

- (ii) **IFRS 18 *Presentation and Disclosure in Financial Statements*:** The International Accounting Standards Board (IASB) recently issued IFRS 18. This standard introduces new requirements for entities to disclose management-defined performance measures (MPM)<sup>8</sup> within their financial statements. The Standard could potentially provide guidance for NFP entities (NFPs) to disclose alternative performance measures (or non-GAAP performance measures) that reflect management's perspective of the entity's financial performance. However, the [AASB Due Process Framework for Setting Standards](#) and the [AASB Not-for-Profit Entity Standard-Setting Framework](#) require a separate due process to include the IFRS Accounting Standard amendments into AASB NFP Standards.<sup>9</sup> Therefore, in future meetings, the Board will determine whether any NFP-specific amendments are necessary.
- (iii) **Benchmarking Australian Accounting Standards (AAS) and the International Public Sector Accounting Standards (IPSAS) project:** The AASB has a process of assessing whether the adoption of IPSAS is necessary for the public sector<sup>10</sup>, and this project will form part of the assessment. It will commence in H2 2024 and build upon a previous staff report, [AASB Staff Report: Australian Accounting Standards Board and International Public Sector Accounting Standards Board Pronouncements – A Comparison \(May 2017\)](#), comparing AAS and IPSAS. This project is expected to be completed in H2 2025. Following its completion, the findings will be presented to the Board for consideration on:
- whether principles from IPSAS 47 *Revenue* can be used to clarify or amend NFP income recognition requirements under AASB 1058 and AASB 15 (the Standards); and
  - whether principles from IPSAS 41 *Financial Instruments* can be used to clarify or amend AASB 9 *Financial Instruments* requirements for NFPs.

The effective date of IPSAS 47 is 1 January 2026. The Board is of the view that it is also important to comprehend the implementation experience and challenges of IPSAS 47.

- (iv) **Upcoming AASB Agenda Consultation:** A formal Agenda Consultation process is held with stakeholders at least once every five years to identify accounting and reporting issues that need resolution. The recent Agenda Consultation was conducted in 2022 (i.e. 2022–2026 AASB Agenda Consultation). Therefore, the upcoming Agenda

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8 MPMs are subtotals of income and expenses other than those listed by IFRS 18 or specifically required by another IFRS, that an entity uses:

(a) in public communications outside financial statements; and/or  
(b) to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole.

9 See paragraphs 7.6.1–7.6.5 of the [AASB Due Process Framework for Setting Standards](#).

10 See paragraph 16 of the [AASB's Approach to International Public Sector Accounting Standards](#).



Consultation is expected to be conducted in 2026.<sup>11</sup> By early 2026, the projects listed above are anticipated to be either completed or at least reach a stage with significant progress. The Board is of the view that the upcoming Agenda Consultation will provide an opportunity to gather further feedback on whether the projects listed above have addressed concerns, particularly those regarding smaller NFP entities, or whether those concerns persist.

- (b) **The overall costs and benefits:** Although many stakeholders have highlighted the significant costs incurred in implementing the Standards, along with the potential for substantial ongoing costs, they have also expressed concerns that any changes to the Standards could result in additional implementation costs outweighing the anticipated benefits. However, the Board is mindful that ongoing costs could remain considerable if stakeholders continue to have challenges in applying the Standards. Therefore, the Board will gather feedback during the upcoming AASB Agenda Consultation to assess any ongoing concerns that are not addressed. The feedback received will inform the Board whether further action is necessary.

It is important to note that the conclusions made from a post-implementation review (PIR) do not preclude future changes to the Standards. As noted above, the AASB is currently overseeing and undertaking several related projects that could address stakeholder concerns regarding NFP revenue recognition. Careful consideration is necessary before taking any action to avoid imposing unnecessary additional costs on NFPs.

## Overall Board Decisions

After considering stakeholder feedback and evidence available, the Board decided to develop and consider project proposals in the future for the following matters:<sup>12</sup>

- (a) the principles in Appendix F to AASB 15 regarding identifying whether a performance obligation exists;
- (b) whether IPSAS 47, including feedback from its implementation, could provide a basis for useful guidance in relation to AASB 15 and AASB 1058 and whether alternative revenue recognition models might be warranted;
- (c) whether IPSAS 41 and IPSAS 47 could provide useful guidance to address the accounting treatment of financial assets, including the subsequent measurement of statutory receivables, for NFP entities; and
- (d) AASB Staff FAQs on the topics of grants received in arrears and termination for convenience clauses.

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11 See paragraph 7.2.2 of the [AASB Due Process Framework for Setting Standards](#).

12 This is consistent with the AASB Due Process Framework for Setting Standards. Once a technical issue has been identified, the AASB develops a project proposal. A project proposal contains relevant evidence of the issue, including its extent, and the likely timing. The AASB reviews the project proposal and decides whether the project should be placed on its work program.





These project proposals will be considered after the completion of, or significant progress on, other cross-cutting projects, including:

- (a) the NFP Reporting Framework project;
- (b) not-for-profit sector and public sector considerations in relation to AASB 18; and
- (c) the benchmarking of AASB Standards and IPSAS.

The Board also decided to seek feedback during the upcoming AASB Agenda Consultation to assess whether other concerns persist and whether further action is needed.

# Feedback received and Board decisions

ITC 50 included eight topics and 26 questions for comment. This section provides a summary of feedback received and the Board's decisions, together with the Board's reasoning for those decisions.

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

### Determining “sufficiently specific”

The “sufficiently specific” criterion is a key concern raised by most stakeholders as it requires significant judgement. Although some stakeholders noted that the assessment of the “sufficiently specific” criterion can be challenging and time-consuming, some are of the view that reasonable conclusions can be reached through its application that are aligned with the principle of identifying performance obligations in AASB 15 and the Conceptual Framework. Most stakeholders highlighted that the concerns are primarily because there is a lack of clarity in AASB 15.

Some stakeholders raised concerns about the clarity of paragraphs F20–F27 in AASB 15 Appendix F *Australian implementation guidance for not-for-profit entities*. They interpret paragraph F20 as suggesting that most, if not all, conditions must be present for a promise to be deemed “sufficiently specific”. Some consider that this conflicts with paragraph F22, which states that no specific number or combination of conditions specified in an arrangement is necessary.

#### Board decisions

The Board considered that the intention of paragraph F20 of AASB 15 Appendix F is not to impose a rigid requirement for all conditions to be present, noting the Board's rationale in paragraph BC41 of AASB 15. However, the current wording in paragraph F20 might inadvertently suggest otherwise. The Board decided to review paragraph F20 carefully, including the interactions and consistencies of the underlying principles in paragraphs F20–F27, without disrupting the practice of revenue recognition unnecessarily.

### Consideration of IPSAS 47

Feedback received, in particular from the public sector, expressed concerns that the “sufficiently specific” criterion is difficult to apply in some arrangements. For example, ACAG shared in its submission that the reporting of acquittal provisions in assessing “sufficiently specific” has been challenging.

#### Board decisions

While developing AASB 15 Appendix F, the Board noted it would consider undertaking a project to consider the guidance to AASB 15 following the completion of the IPSASB revenue project (paragraph BC72 of AASB 2016-8 *Amendments to Australian Accounting Standards – Australian*

*Implementation Guidance for Not-for-Profit Entities*). Further, at its meeting in June 2023 (see IPSASB update in Agenda Paper 17.1 *Other business*), the Board noted the principles in IPSAS 47 can be considered to determine whether there is any useful guidance for Australian NFPs. As such, as part of the AASB's IPSAS Benchmarking project, there will be a comparison of IPSAS 47, AASB 15 and AASB 1058. The project will contribute to the Board's further consideration of whether IPSAS 47, including feedback from its implementation, could provide a basis for useful guidance in relation to AASB 15 and AASB 1058.

## Illustrative Examples

Most stakeholders pointed out a lack of clarity in the Australian Illustrative Examples. This included concerns about applying the “sufficiently specific” criterion and a desire for examples to cover arrangements involving multiple promises. This request mostly stems from the confusion surrounding the current wording in paragraph F20 of AASB 15 Appendix F.

### Board decisions

The Board noted that as applying the “sufficiently specific” criterion requires significant judgement based on the facts and circumstances of each arrangement, illustrative examples cannot possibly address every situation NFPs might encounter when applying the Standards. While the Board acknowledged the value of additional examples, the Board decided to first address the confusion of the “sufficiently specific” principle within AASB 15 before developing further examples.

## Resource constraints

Many NFPs have limited resources that may be required to apply accounting standards to complex transactions, including access to professional advice.

### Board decisions

The Board is of the view that the costs associated with implementing and transitioning to the Standards may initially be substantial. However, as practices evolve, the ongoing costs are expected to decrease over time. The Board also acknowledged that many smaller NFPs may find it challenging and costly to apply the Standards. The outcome of the NFP Framework project will address many concerns related to AASB 15 and AASB 1058 raised by smaller NFPs.

## Topic 2: Capital grants

### Lack of definition of “identified specification”

Some stakeholders noted that the term “identified specification” is not defined, leading to interpretational challenges in determining whether the criterion is met.



### **Board decisions**

When developing AASB 1058, the Board's intent was for the capital grant accounting requirements to apply where there are clear requirements to build or construct an asset to specifications under the grant. That is, where the requirements are clearly outlined (i.e. the asset to be built or constructed can be identified to a sufficient level) in the grant agreement, the "identified specification" requirements will be met (paragraph BC98 of AASB 1058). However, where there is ambiguity, judgement will need to be applied.

### **Limited guidance**

Illustrative Examples 9 and 10 in AASB 1058, which specifically address capital grant accounting, are the only examples provided. The diverse interpretations of the ITC 50 example conclusions indicate the varying views among stakeholders. Feedback regarding the need for additional guidance is mixed. While some stakeholders have requested further guidance, including more examples, others have noted that additional guidance is unnecessary.

### **Board decisions**

The Board is of the view that Illustrative Examples 9 and 10 sufficiently demonstrate how the principles are applied. As entities are required to apply the principle based on facts and circumstances, developing more examples would provide little benefit. As such, no action is needed.

### **Disclosures**

Feedback indicated that paragraph 37 of AASB 1058, which encourages entities to disclose information about externally imposed restrictions that limit or direct the purpose for which resources controlled by the entity may be used, is helpful. Where income is recognised upfront, but the asset will be built or acquired (and associated expenditure incurred) in the future, entities can make such disclosures.

### **The timing of income recognition**

Some stakeholders expressed a lack of understanding regarding income recognition principles related to capital grant accounting. Some stakeholders commented that Illustrative Examples 9 and 10 adequately illustrate the principles.

### **Board decisions**

As discussed in paragraph BC98 of AASB 1058, during the Standard's development, the Board considered aligning the timing of income recognition with the receipt of the asset itself, rather than the cash used to construct or acquire it. Consequently, the Board determined that the accounting treatment for such transactions should mirror that of AASB 15 and decided to provide the requirements in AASB 1058 instead.

The Board is of the view that the Standards provide adequate guidance. However, if there are any

changes to the Standards due to the work related to Topics 1 and 3, the Board will reconsider this topic.

### Splitting components

Stakeholders noted that AASB 1058 lacks detailed guidance on splitting capital and non-capital amounts that are included in the same agreement.

#### *Board decisions*

The Board noted that the clear distinctions between grants in the scope of AASB 15 and those in the scope of AASB 1058 are the extent of the distinct promise to transfer goods and services to a beneficiary. The Board is of the view that the Standards provide sufficient guidance, acknowledging that the level of judgement and complexity of the assessment will depend on the particular facts and circumstances of the arrangement. While no illustrative examples specifically demonstrate a situation where an arrangement includes a capital grant component and a AASB 15 component, the underlying principle demonstrated in Illustrative Example 9 in AASB 1058 may be helpful. As such, no action is needed.

## Topic 3: Difference between management accounts and statutory accounts and alternative revenue recognition models

### Significant judgement

Most stakeholders highlighted that significant judgement is required when applying the Standards, which can be particularly burdensome for smaller NFPs with limited resources. However, some stakeholders also noted that applying principles-based accounting standards often requires significant judgement.

#### *Board decisions*

The Board acknowledged that the NFP Reporting Framework project should not be considered as the solution to address this concern. However, the outcome of the NFP Framework project may address many concerns related to the Standards raised by smaller NFPs.

### Unclear “sufficiently specific” concept

Many stakeholders raised concerns about the lack of clarity on the “sufficiently specific” concept. They find it difficult to interpret and apply, leading to inconsistencies and confusion in practice. This lack of clarity poses significant challenges for NFPs during implementation and potentially on an ongoing basis.

### **Board decisions**

The discussion of “sufficiently specific” and Board decisions are provided in Topic 1 above.

### **Income reporting**

Some NFPs have raised concerns that income recognition, such as upfront recognition or recognition upon receipt, may not accurately reflect their perspectives on financial performance. This prompted some NFPs to maintain separate management accounts and/or reports for internal reporting, aligning with their board’s needs and/or the information that their funders request.

### **Board decisions**

The Board noted that it is common for entities, including for-profit entities, to prepare different sets of reports for various purposes, including internal decision making. Providing a separate management report that is not aligned with AASB 1058 for internal use should not be necessarily regarded on its own as a compelling reason to indicate problems with AASB 1058. Additionally, NFPs could use additional disclosures to clarify their specific circumstances (which is encouraged in paragraph 37 of AASB 1058), particularly if there are concerns that the income recognised in the period does not accurately reflect their financial situation.

It is important to note that the IASB recently issued IFRS 18. This standard introduces new requirements for entities to disclose management performance measures within their financial statements. The Standard could potentially provide guidance for the NFPs to disclose alternative performance measures (or non-GAAP performance measures) that reflect management’s perspective of the entity’s financial performance. This might address stakeholder concerns that reported income under AASB 1058 may not adequately reflect their perspective on the entity’s financial performance. However, the AASB Due Process Framework for Setting Standards and the AASB Not-for-Profit Entity Standard-Setting Framework require a separate due process to consider potential NFP amendments to IFRS Accounting Standards.<sup>13</sup> Therefore, the Board will need to determine whether any NFP-specific amendments to IFRS 18 are necessary in the future.

### **Matching income and expenses**

Some stakeholders suggested the matching concept for income recognition would provide more useful information and would be consistent with the requirements of AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. However, some stakeholders raised concerns that AASB 120, developed decades ago, is not fully aligned with the current Conceptual Framework, and a comprehensive review of AASB 120 is warranted.

### **Possible alternative approaches**

Stakeholders provided mixed feedback on alternative approaches to NFP revenue recognition, highlighting the limitations of each example in Question 10 provided in the ITC. Many stakeholders

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13 See paragraphs 7.6.1–7.6.5 of the AASB Due Process Framework for Setting Standards.

indicated that significant costs have already been incurred implementing the Standards and any changes to the Standards might outweigh the benefits.

### **Board decisions**

The Board noted that, in line with the Board's considerations during the development of AASB 1058,<sup>14</sup> it is important for NFP accounting to closely adhere to the principles outlined in AASB 15 (i.e. IFRS Accounting Standards) and the Conceptual Framework unless there is a compelling reason to deviate from them. However, the Board is also mindful of the potential significant ongoing costs if NFPs continue to face challenges applying the Standards. While developing AASB 15 Appendix F, the Board noted it would consider undertaking a project to consider the guidance to AASB 15 following the completion of the IPSASB revenue project (paragraph BC72 of AASB 2016-8). Further, at its meeting in June 2023 (see IPSASB update in Agenda Paper 17.1 *Other business*), the Board noted the principles in IPSAS 47 can be considered to determine whether there is any useful guidance for Australian NFPs, such as revenue arising from a non-binding arrangement or binding arrangement.

As such, as part of the AASB's IPSAS Benchmarking project, there will be a comparison of IPSAS 47, AASB 15 and AASB 1058. As the effective date of IPSAS 47 is 1 January 2026, the Board also considers the importance of understanding the implementation experience and challenges of applying IPSAS 47. Given this topic is closely related to Topic 1, the Board decided to address the concern with Topic 1 concurrently.

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

### **Principal versus agent determination**

Many NFP entities are required to determine their size based on their income recognised, and, as such, the principal versus agent determination is relevant to all entities. Not surprisingly, many stakeholders across sectors commented that the principle can be difficult to apply as it requires significant judgement.

### **Board decisions**

Similar feedback from the for-profit sector was received as part of the IFRS 15 *Revenue from Contracts with Customers* PIR. In the February 2024 IASB meeting, IASB members reiterated that by nature, the principal versus agent requirements in IFRS 15 are complicated, and entities are required to apply judgements based on the indicators mentioned in IFRS 15. All IASB members decided not to take further action on application matters in relation to:

- the relationship between the concept of control and the indicators in paragraph B37 of IFRS 15;

<sup>14</sup> See paragraphs BC15–BC17 of AASB 1058.



- identifying a customer of a supplier that sells its goods or services through an intermediary; and
- identifying performance obligations in a multi-party arrangement.

However, the IASB decided to discuss in a future meeting whether principles mentioned in the Basis for Conclusions should be moved to the main body of the Standard with care to cause no disruption, and whether more guidance and indicators related to the determination of control for intangible assets should be added in IFRS 15, and to explore the matter in the next IASB agenda consultation. The Board decided to wait for the IASB decision on this topic before taking further action. As the AASB Agenda Consultation timeline is closely aligned with the IASB's, the Board decided to seek feedback on related matters from stakeholders while conducting its future agenda consultation.

### Amendments to the NFPs

At the March 2024 meeting, some of the Board members questioned whether NFP-specific guidance should be provided and, depending on the extent, whether the AASB 15 principal versus agent guidance would need to be tailored to reflect the variety of NFP entity arrangements.

#### Board decisions

The Board is of the view that there is no sufficient justification for the principle to differ between the NFP and the for-profit sectors. The comparison of the agent and principal guidance in IPSAS 47 and AASB 15 may be helpful for the Board's consideration in a future meeting.

### Pass-through arrangements

It is not uncommon for NFPs to receive funding that must be passed through to other parties. As AASB 1058 only permits recognition of income for the residual amount, entities generally need to first consider other accounting standards, such as AASB 9 and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* for such arrangements. Some stakeholders commented on the need for Example 3A of the Illustrative Examples accompanying AASB 1058 (hereafter IE 3A) to be reviewed and updated. In particular, there is confusion regarding the recognition of the financial liability in the fact pattern provided.

#### Board decisions

It is important to note that the Board has considered this feedback previously. In January 2022, while the Board considered the conclusions in IE 3A were appropriate, the Board issued ED 318 *Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases* to propose amending the example to clarify the conclusion further and to add an example to illustrate a contrasting scenario. However, most respondents did not support the proposed amendments. After considering the feedback received, the Board decided to retain IE 3A unamended. Further, a majority of respondents preferred the Board consider any changes

to the example only as part of the PIR.<sup>15</sup> The underlying principles demonstrated in IE 3A are consistent with the Standards.

As such, the Board is of the view that changes to the examples, such as improving clarification, will only provide marginal benefits, and therefore further work is not needed at this stage.

### **AASB 1050 Administered Items**

Some stakeholders raised concerns about the principal versus agent concept and its interaction with AASB 1050 *Administered Items*. They highlighted the lack of guidance and the extent of judgement required in applying AASB 1050, which poses challenges in its consistent application by government entities.

#### **Board decisions**

The Board noted that feedback relating to the interaction between the principles of principal versus agent and controlled versus administered should be considered together with any feedback on the future PIR of AASB 1050. This concern will be considered as part of the AASB 1050 PIR.

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

### **Contract assets recognition**

Some stakeholders requested clarification on whether a contract asset could be recognised relating to the accounting for grants received in arrears for agreements under AASB 1058 (i.e. agreement not meeting the “sufficiently specific” criterion).

Feedback on diversity in applying AASB 1058 was mixed. Some stakeholders observed no significant differences; however, some stakeholders commented there are variations.

While some stakeholders requested clarity on recognising receivables, some stakeholders commented that AASB 9 provides adequate guidance for entities to determine when and how to recognise financial assets as receivables.

Many stakeholders from the public sector suggested reviewing and updating the FAQs. They are of the view that some accounting treatments in the examples lack justification or clarification, particularly regarding financial asset recognition. Some stakeholders also commented that they disagreed with some of the examples. On the other hand, some feedback notes that the guidance in the FAQ was helpful and reduced diversity in practice.

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15 See <https://www.aasb.gov.au/media/2nxbmcz2/aasbapprovedminutesm186apr22.pdf>.

### Board decisions

The Board observed that IPSAS 47 included the concept of “contract asset” (or “binding arrangement asset”). The Board is of the view that the AASB’s IPSAS Benchmarking project will provide further insight in these areas.

It is important to note that the Board received similar feedback before the PIR, which led to the development and publishing of the AASB Staff FAQs.

The IPSASB in recent years completed its *Public Sector Specific Financial Instruments* project, which addresses receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature. The Board is of the view that the comparison between AASB 9 and IPSAS 41 as part of the AASB’s IPSAS Benchmarking project will provide insights for further consideration. Considering a standard-setting project to address the subsequent measurement of statutory receivables may be warranted (see Topic 8 below) after the completion of the comparison.

The Board will also assess IPSAS 41 and IPSAS 47 to determine whether there is any useful guidance to address the accounting treatment of financial assets and subsequent measurement of statutory receivables for Australian NFPs.

It is important to note that the FAQs are a tool to help entities understand the principles of the Standards, not an interpretive instrument. Entities should use judgement and apply the Standards accordingly based on their specific facts and circumstances. However, given the significant requests for a review, the Board will consider reviewing and updating AASB Staff FAQs to determine whether amendments to the FAQs are necessary.

## Topic 6: Termination for convenience clauses

Some stakeholders highlighted that there is diversity in how termination for convenience (TFC) clauses are accounted for. This diversity mainly arises due to the need for judgement to determine the nature and substance of these clauses. That is, some stakeholders are of the view that TFC clauses in an agreement can be substantive clauses (i.e. the TFC clause is considered substantive and requires repayment of funds if exercised, resulting in recognition of a financial liability for any unspent funds) or protective clauses (i.e. the TFC clause is rarely exercised and considered to be protective in nature, therefore a financial liability would not be recognised unless the clause is exercised).

A few stakeholders commented that the Board has already considered and made decisions on this issue; however, there may be a need to incorporate some of the analysis from [Agenda Paper 5.1](#) of the November 2020 Board meeting into the FAQs to raise awareness.



### Board decisions

The Board addressed this concern in the November 2020 meeting, referencing relevant guidance and accounting standards such as an IFRS Interpretation Committee (IC) agenda decision from January 2014 regarding a submission related to AASB 132 *Financial Instruments: Presentation*.<sup>16</sup> The Committee noted that the definitions of financial asset, financial liability and equity instrument in IAS 32 *Financial Instruments: Presentation* (and therefore AASB 132) are based on the financial instrument's contractual rights and contractual obligations. However, paragraph 15 of AASB 132 requires the issuer of a financial instrument to classify the instrument based on the substance of the contractual arrangement. Consequently, if a contractual term of a financial instrument lacks substance, it would be excluded from the classification assessment of the instrument.

The agenda decision states that, to determine whether the clause is substantive, the issuer will need to understand whether there are actual economic or other business reasons under which the clause would be exercised and that judgement will be required. The Board acknowledged that, while the IFRS IC agenda decision addressed contractual clauses other than TFC clauses, it may provide further guidance when assessing the substance of a contractual clause. Entities are to consider the facts and circumstances and apply professional judgement.

At the November 2020 meeting, the Board also decided that, in accordance with the AASB Due Process Framework for Setting Standards, the matter would need to be referred to the IFRS IC if authoritative guidance is necessary to address diversity in practice, given the issue is relevant to both FP and NFP entities. The Board directed staff to engage further with the stakeholders who raised the issue to assist them if they intended to submit a request to the IFRS IC. While staff offered assistance, staff is not aware of any submissions made. Staff will continue providing assistance to stakeholders if they intend to submit a request to the IFRS IC.

The Board noted that, in response to the feedback received on its PIR of IFRS 15, the IASB tentatively decided to take no further action on the matters related to the accounting for liabilities arising from IFRS 15 and other aspects of applying IFRS 15 with IFRS 9 *Financial Instruments*, and the IASB proposals contained in ED 327 *Financial Instruments with Characteristics of Equity* contain clarification of "not genuine" with some drafting changes. The Board does not expect any of these IASB projects to address the issue, especially in cases when the agreements are within the scope of AASB 1058.

The Board will review and update the AASB Staff FAQs noting the fact that the FAQs are educational in nature and cannot interpret or add to requirements in the accounting standards.

16 See <https://www.aasb.gov.au/admin/file/content102/c3/ApprovedAASBMinutesM178.pdf>.

## Topic 7: Accounting for research grants

Many stakeholders expressed that the FAQs are adequate and do not think further examples or implementation guidance are needed. Additionally, they suggested that the FAQs be incorporated into the Standards.

Some stakeholders suggested that they prefer the matching principle consistent with AASB 120 requirements. However, some stakeholders raised concerns about AASB 120's alignment with the Conceptual Framework. Further, some stakeholders are of the view that transaction neutrality should be considered between research grants and other funding arrangements.

Some stakeholders disagreed with the Australian Illustrative Examples 4A and 4B for NFP entities in AASB 15. They are of the view that research activities do not generally meet the criteria for recognising revenue over time under AASB 15. This is because research findings are generally not immediately usable, which means they do not satisfy the requirement in paragraph 35(a) of AASB 15.

### Board decisions

The Board is of the view that adding FAQs to the Standards is unnecessary, as they primarily serve as a tool to help preparers understand the underlying principles of the Standards. It is important to note that, while Illustrative Examples accompany the Standards, they are not an integral part of them and do not provide interpretative guidance. Considering that the FAQs are readily accessible to stakeholders, the Board is of the view that incorporating them into the Standards would provide little incremental benefit.

It is important to note that the Illustrative Examples were amended by AASB 2019-6 *Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities*, to enhance clarity. The Board is of the view that the Illustrative Examples already provide an adequate basis to explain the accounting treatment, reflecting the principles of identifying performance obligations under AASB 15. As such, no action is needed.

## Topic 8: Statutory receivables

Most concerns are surrounding the subsequent measurement requirements of recognised statutory receivables as there is a lack of guidance. Some stakeholders highlighted that entities are applying the requirements of AASB 9 (expected credit loss (ECL) model), AASB 136 *Impairment of Assets* or AASB 137 for subsequent measurement of recognised statutory receivables. Some stakeholders suggested the Board consider the simplified approach under AASB 9 to measure ECLs of statutory receivables when developing guidance on this matter.



### **Board decisions**

The Board previously decided (paragraph BC12 of AASB 2016-8) not to require entities to apply the subsequent measurements of AASB 9 to statutory receivables. The Board, however, decided to consider the subsequent measurement of statutory receivables in a future project and monitor the IPSASB's *Public Sector Specific Financial Instruments* project, which addresses receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature. The IPSASB has completed the project and amendments have been made to IPSAS 41 (i.e. Non-authoritative Amendments to IPSAS 41).<sup>17</sup> Further, IPSAS 47 also addresses statutory receivables. Therefore, the Board will assess IPSAS 41 and IPSAS 47 to determine whether there is any useful guidance to address the accounting treatment of financial assets and subsequent measurement of statutory receivables for Australian NFPs.

## **General matters for comment**

Among the feedback received, a few public sector stakeholders provided feedback relating to volunteer services. They requested more clarification or guidance on determining whether services would have been purchased if they had not been donated.

### **Board decisions**

The Board acknowledged that, when developing AASB 1058, the Board considered the accounting requirements for volunteer services as part of a separate future project (paragraph BC112 of AASB 1058). At the March 2024 meeting, the Board also noted the significance of volunteer services in the private sector.<sup>18</sup> The Board noted that the disclosure of volunteer services will be considered as part of the *Service Performance Reporting* project currently underway and may result in relevant disclosures about volunteers being made.

<sup>17</sup> <https://www.ipsasb.org/publications/non-authoritative-amendments-ipsas-41-financial-instruments>.

<sup>18</sup> See paragraphs 15 and 16 of [Agenda Paper 8.0: Cover memo \(March 2024\)](#).



## Next Steps

The Board concluded that the PIR of AASB 1058 is complete. The AASB will continue to monitor the application of AASB 1058.