Australian Bureau of Statistics

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Ms Kris Peach
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Australian Bureau of Statistics (ABS) comments on ED 260: Income for Not-for-Profit Entities

Dear Ms Peach,

1. The ABS appreciates the opportunity to comment on *Exposure Draft 260: Income for Not-for Profit Entities* (ED 260). We appreciate the need to maximise harmonisation between Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP). These comments are based on our knowledge of GFS concepts and issues, and viewing the exposure draft through this lens.

2. Under current GAAP it is our understanding that revenue for not-for-profit entities is generally recognised when the cash is paid. Under ED 260, revenue recognition will fall into two categories:
    a. If performance obligations can be identified in a contract, then revenue is recognised when the performance obligations are met.
    b. If there are no performance obligations then revenue should be recognised when the inflow is more likely than not to occur. This would be based on evidence such as previous experience or identifying an enforceable contract.

3. In GFS grant revenue accrues 'when all requirements and conditions are satisfied' (Table 3.2, Australian Government Finance Statistics Manual - Preliminary, ABS cat no 5514.0). The first case in paragraph 2 is conceptually equivalent to the GFS treatment. The second case is also broadly consistent, though there could be slight differences between the 'more likely than not' criteria and the 'when all requirements and conditions are satisfied' criteria. While there may be small differences, the recognition point is much more closely aligned conceptually than the current practice of recognising revenue when cash is paid. As such, the ABS supports the recognition change.

4. Paragraph 25 of ED 260 states that the initial value of any revenue should be at fair value. ABS supports this view as it is conceptually equivalent to the market value principle used in ABS macroeconomic statistics.

5. ED 260 notes that there is a harmonisation difference for uncollectable taxes. Under ED 260 uncollectable taxes are treated as expenses, but GFS treats uncollectable taxes as a reduction in tax revenue. In practice it is unlikely that taxes can be classified as uncollectable when they accrue. This will limit any differences in the value of taxation revenue recognised under GFS or GAAP. However, in GFS, when revenue is deemed uncollectable it would be reduced through an other volume change in the relevant accounts receivable. In GAAP the estimated amount of uncollected tax revenue would be treated as an expense when provisioned. This is consistent with differing treatment of items such as doubtful debts, where provision expenses for doubtful debts are recognised in GAAP but not in GFS.

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6. In summary, the ABS believes that that ED 260 increases harmonisation in revenue measurement between GFS and GAAP and welcomes the new standard. We would also support similar recognition and valuation treatment from the grantor's perspective to ensure consistent treatment through all economic agents. Please contact Jonathon Khoo (email: j.khoo@abs.gov.au, ph: 07 3222 6142) if you would like to discuss this response further.

Kind regards,

Paul Mahoney

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