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The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Dear Kris,

ED260: Income of Not-for-Profit Entities

This submission is made in my private capacity as someone who has had a long term interest in the development and application of accounting standards, and who had concerns about some of the previous proposals in this area.

In general I am supportive of the Board's proposals and support the issue of this [draft] standard. In a number of instances the additional guidance will be helpful. However I doubt that the concern of many constituents, that under AAS 1004 income was being prematurely recognised, has been fully resolved. While the implementation guidance, especially that in paragraphs IG14 to IG17, may help identify transactions that have specific performance obligations and thus should be accounted for under AASB 15; many transactions will fall outside the criteria, despite the arrangements containing conditions and requirements that make it clear, possibly explicitly, that the contribution is intended for use by the organisation in a future period. Consequently there will continue to be a mismatch between when revenue and the related expenditure are recognised.

As a consequence I suspect that unfortunately I will continue to see some examples of two forms of financial reports. Firstly those that include liabilities that include items described as "deferred liabilities" or some similar term where I suspect from either comments in the report or the lack of a policy note that the item concerned does not meet the definition of a liability and in particular is not a performance obligation. Secondly those reports where it is advised, either verbally or in writing, that compliance with accounting standards has produced financial reports with meaningless results because of the timing of income, and while these reports are available, interested parties should better refer to an alternative report. Neither outcome does much for the reputation of Australian Accounting Standards.

I strongly support that not-for-profit entities outside of government should only recognise volunteer services, or a class of volunteer services, if they elect to do so and they may only so elect provided that the market value can be reliably measured. This should be more clearly stated within paragraphs 19 to 26, rather than leaving it until IE4.

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I am also supportive of paragraph 31 and believe that it will help avoid uncertainties and inconsistencies.

Incidentally I find example 3C unrealistic and confusing. Presumably it is trying to say that because the charity has to hand over any interest receivable, (presumably on any unexpended balance, not just until 30 June) the funds are in the nature of an uncontrolled advance until the charity both has authority to spend the money and actually spends it. Consequently until controlled it is not a voluntary transfer in terms of this standard. This seems rather an arbitrary distinction.

In conclusion, I believe that the proposals are in many cases an improvement, but that not all of the intended reasons for issuing this standard will be met.

Yours faithfully,

Peter Batten, FCCA, FCPA, FCA

14 August 2015