



**ACT**  
Government

Chief Minister, Treasury and  
Economic Development

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

Dear Ms Peach,

### **Exposure Draft (ED) 260 *Income of not for profit entities***

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on the Exposure Draft: ED 260 *Income of not for profit entities*.

HoTARAC is highly supportive of AASB's efforts in developing the implementation guidance for not-for-profit entities in relation to AASB 15 *Revenue from Contracts with Customers*.

HoTARAC supports the changes proposed in ED260 to address the deficiencies in AASB 1004 *Contributions* and offers comments on the specific questions requested in the ED. HoTARAC advocates continuing to include a definition for 'contribution by owners' similar to that issued by the IPSASB. Furthermore, supports retaining the reporting requirements and guidance in AASB 1004 and Interpretation 1038 *Contributions by Owners Made to Wholly Owned Public Sector Entities* in the government context in order to reduce uncertainty for preparers. HoTARAC provides specific comments on questions from the ED in the Attachment below.

If you have any queries regarding HoTARAC's comments, please contact Kevin Lee from the Victorian Department of Treasury and Finance on (03) 9651 5565.

Yours sincerely

David Nicol  
Chair  
Heads of Treasuries Accounting and Reporting Advisory Committee

20 August 2015

## ATTACHMENT

### Specific Matters for Comment

**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.**

HoTARAC supports the change and we note that the impact of the changes proposed will be dependent on how the not-for-profit entity has interpreted existing income recognition requirements under AASB 1004 *Contributions*. One existing interpretation of AASB 1004 is that the timing of gaining control over assets from voluntary non-reciprocal transfers depends on the arrangements between the two parties. If the grant received is for the provision of services in the following reporting period, the transferee only obtains control over the grant when the services have been provided and income will be deferred and recognised when the conditions are satisfied.

An alternative interpretation of AASB 1004 is that regardless of a return obligation attached to the transaction, revenue should be recognised when cash is received, which could result in the premature recognition of grants as the goods or services are provided for the benefit of the community at large, rather than for the benefit of the transferor. The shift in focus from ‘reciprocal/non-reciprocal transfers’ under AASB 1004 to an assessment of enforceability and performance obligations will better reflect the economic substance of the expected performance obligations of the entities and therefore the revenue recognition for delivering those 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.**

HoTARAC notes that judgement will be required in assessing when an arrangement meets the “sufficiently specific” criteria and will depend on the circumstances. IG13 provides conditions to be considered but clarifies that no specific number or combination of these conditions needs to be specified in the agreement for the arrangement to be sufficiently specific. While we support a broad principles approach to assessing specificity to determine if a performance obligation exists, there were mixed views as to whether the element of judgement may cause a more diverse range of outcomes. Unless there is further guidance to support and illustrate the application of these principles, it may result

in an unintended consequence of more arrangements not meeting the ‘sufficiently specific’ criteria with more full recognition of the grants upon receipt.

We recommend including the observations noted in BC 30-BC 36 in the implementation guidance to guide preparers in their assessment when determining whether the arrangements satisfy the “sufficiently specific” criteria.

HoTARAC notes that the proposed ED will have a limited impact on current arrangements, because there may be challenges for some grants to satisfy the “enforceable” and “sufficient specific” criteria even though they involve the provision of goods and services.

For example, even though certain grants require the provision of goods or services, the terms of the arrangement may not be sufficiently specific to qualify as a performance obligation. The judgement involved in assessing these arrangements may result in some of these arrangements not meeting the “sufficiently specific” criteria.

Furthermore, as enforceability is essential for a performance obligation to arise, we note that there are some Commonwealth grants to States that are collaborative in nature and therefore may not be legally binding. In that regard, these Commonwealth grants may not give rise to legally binding or enforceable obligations of the States to provide goods or services.

**3. Do you agree with the proposal in paragraphs IG 19 – IG 30 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?**

HoTARAC agrees with the proposal and support a qualitative assessment to determine if a donation component exists which is only reported if separately identifiable. However, we note that in practice, it is potentially difficult to identify and evidence a customer’s intention to make a donation when it is a matter of judgement.

We recommend that IG30 be modified to “Donations that are *separately identifiable* are accounted for in accordance with AASB 10XX” to provide clarity on the scope of AASB 15 and AASB 10XX.

**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.)**

HoTARAC advocates that the requirements should be the same for all not-for-profit entities, regardless of whether they operate in the public or private sector.

In relation to the question 4(b), we are of the view that the recognition of volunteer services should be required if those services would also have been purchased if they had not been donated (i.e. dot point (ii) above). However, we note that in practice, most not-for-profit entities may still not purchase the services even if they need them and continue to work within their financial constraints, and rely on volunteers or deliver fewer services.

Accordingly, Queensland has proposed mandating only disclosure of material volunteer services received rather than separate recognition for volunteer services.

As identified in paragraph 46 of AASB 1004, some donated services may not be central to the delivery of outputs of the not-for-profit entity. In that case, it is unlikely that the entity would purchase the service if it was not donated. As a result, recognition of the fair value of those services as income and expenses may not be relevant to assessment of the cost of services provided by, or the financial performance of the entity.

However, we note that the ED does not clearly articulate how the corresponding "expenses" would be recognised upon utilisation of the volunteer services and recommend that clarity and additional guidance be included on this matter.

We propose that AASB encourage entities to include information about volunteer services that is useful to users, regardless of whether entities recognise volunteer income in their financial statements (based on meeting the criteria set out in paragraph 44 of AASB 1004). These disclosures would be reported outside the financial statements, within the annual report.

**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.)**

HoTARAC supports the proposal as it adopts a pragmatic approach, reducing the onerous burden for having to reassess at the portfolio or other aggregate level.

Please note that the correct reference to the question is para 31 and not para 38 of draft AASB 10XX.

**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.)**

HoTARAC members, with the exception of Queensland, support retention of a definition of 'contribution by owners', but revised to broaden the scope similar to the definition of "owners' contribution' issued by IPSASB to avoid uncertainty for preparers. However, the proposed definition may still leave a gap that AASB Interpretation 1038 is intended to fill. As a result, we recommend AASB considers updating the AASB Interpretation 1038 to provide additional guidance on the proposed definition. This will assist and reinforce the principles in the public sector context.

We note that the definitions in AASB 1004 and AASB Interpretation 1038 may create challenges for some, however the challenges of not having any guidance would be greater. We are of the view that without the guidance in AASB 1004 and AASB Interpretation 1038, jurisdictions would need to create their own guidance and this could result in divergent practice.

We recommend that the term 'parties external to the entity' as used in AASB 1004 be retained rather than the term 'external parties' in the IPSASB definition, to maintain consistency in terminology as entities within government would be related.

We also seek guidance on the treatment of net assets transfers between entities as a result of restructures of administrative arrangements, particularly in instances where there may be negative assets transfers, i.e. net liability, whether it would still qualify for a contribution by owners; or in cases when there is insufficient capital to facilitate a transfer of net assets.

**7. The AASB also seeks views on the following issues related to contributions by owners:**

**(a) whether, in view of concerns expressed by some that using AASB 1004's definition of 'contributions by owners' in AASB Interpretation 1038 Contributions by Owners Made to Wholly Owned Public Sector Entities (which includes for-profit public sector entities in its scope) might prevent a for-profit entity in the public sector from making an unreserved statement of compliance with IFRSs, AASB Interpretation 1038 should be:**

**(i) withdrawn;**

**(ii) retained but with narrower application [that is, limited to not-for-profit entities in the public sector, and possibly also confined to identifying which not-for-profit public sector entities should account for transfers between them when they are controlled by the same parent (government)]; or**

**(iii) retained without amendment? (See also paragraphs BC84-BC94 of the Basis for Conclusions.)**

HoTARAC notes that there is no equivalent definition of 'contribution by owners' for the private sector entities as they generally issue equity shares in exchange for ownership contributions. However, public sector entities are set up and operate differently, as a result the interpretation provides guidance specific to public sector entities to help distinguish between income and capital transfers.

We strongly suggest retaining AASB Interpretation 1038 because it provides clarity to preparers, assists and reinforces the principles in the public sector context. Refer to comments above.

However, Queensland supports AASB's proposal to withdraw AASB 1004 definition of 'contributions by owners' and AASB Interpretation 1038, on the basis that they have found AASB Interpretation 1038 difficult to read and interpret and found the conceptual approach of transactions between entities via the parent inefficient. It also prevents the transfers of asset revaluation surplus between entities and does not accommodate transfers of liabilities and net liabilities.

**7. (b) whether requirements for restructures of administrative arrangements (presently set out as paragraphs 54-59 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraph BC90(b) of the Basis for Conclusions).**

HoTARAC strongly suggests retaining the requirements for restructures of administrative arrangements because it provides clarity to preparers, assists and reinforces the principles in the public sector context.

However, Queensland supports AASB's proposal to withdraw the requirements for restructures of administrative arrangements.

**7. (c) whether requirements for distributions to owners (presently set out as paragraphs 49 and 53 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraphs BC94-BC96 of the Basis for Conclusions).**

HoTARAC strongly suggests retaining the requirements because it provides clarity to preparers, assists and reinforces the principles in the public sector context. However, Queensland supports AASB's proposal to withdraw the requirements for distribution to owners.

**7. (d) whether requirements for liabilities of government departments assumed by other entities (presently set out as paragraphs 39-43 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraphs BC97-BC98 of the Basis for Conclusions); and**

HoTARAC strongly suggests retaining the requirements because it provides clarity to preparers, assists and reinforces the principles in the public sector context. However, Queensland supports AASB's proposal to withdraw the requirements for liabilities of government departments assumed by other entities.

**7. (e) the practical implications if the definition of 'contributions by owners' and AASB Interpretation 1038 were to be withdrawn?**

The definition of 'contributions by owners' and application of AASB Interpretation 1038 provide clarity and guidance reducing the uncertainty for preparers. The proposed withdrawal of these may potentially make it more difficult for preparers to apply the requirements consistently in the absence of any guidance.

**8. In relation to disclosure requirements regarding compliance by government departments with appropriations, do you agree with:**

- (a) omitting the requirement in paragraph 64(e) of AASB 1004 to disclose the nature and probable financial effect of any non-compliance by the government department with externally-imposed requirements for the period, other than any non-compliance reflected in material variances between amounts appropriated and amounts expended? (See paragraphs BC99-BC103 of the Basis for Conclusions.)**
- (b) extending the scope of the retained disclosure requirements for government departments (i.e. those regarding any non-compliance reflected in material variances between amounts appropriated and amounts expended) to also apply to any other public sector entities that obtain part or all of their spending authority from parliamentary appropriations? (See also paragraphs BC99-BC103 of the Basis for Conclusions.)**

HoTARAC supports the removal of the disclosure in (a).

It is our view that in practice, given the comprehensive government authorisation process, it would be rare and infrequent for any 'unauthorised expenditure' by government departments in (b).

We believe these disclosures are less likely to apply to other public sector entities as appropriations are only provided to government departments in the Commonwealth, New South Wales, Victoria and Queensland, and the money is then distributed to other public sector entities as grants.

We recommend that AASB provide more specific guidance in BC104 to how this would apply to other public sector entities.

**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.)**

HoTARAC notes there are practical challenges for the recognition of non-financial assets acquired in past financial years, particularly a finance lease with 'peppercorn' lease payments with a protracted term that has been in existence for a long time. In some instances, it may be impracticable to determine a fair value at inception of the lease and determination of fair value can only be made practicably at the date of initial transitional application of the new requirements. Therefore we recommend the AASB reconsider the transitional provision to allow entities to measure the fair value of the lease at the date of initial application of the proposed standard.

In other respects, we agree with the proposed transitional provisions which are consistent with AASB 15 *Revenue from contracts with customers* and support the same application date as AASB 15.



## General Matters for Comment

The AASB would also particularly value comments on the following:

**10. Whether there are 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).**

HoTARAC notes that the Australian Bureau of Statistics (ABS) is in the process of revising its Government Financial Statistics (GFS) manual to align to the revised International Monetary Fund (IMF) GFS manual, which is yet to be published. The ED has noted some differences arising between IMF GFS manual and proposed changes in ED260. We advocate consideration of these differences and discussions with ABS to minimise any differences to GFS.

**11. Whether, overall, the proposals would result in financial statements that would be useful to users.**

HoTARAC believes that, overall, the proposals would result in financial statements that would be useful to users.

**12. Whether the proposals are in the best interests of the Australian economy.**

Yes

**13. Unless already provided in response to specific matters for comment 1 – 9 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.**

HoTARAC notes that there will be costs involved in the review of commercial contracts and identification of performance obligations in grant agreements, however these costs cannot be quantified at present.

HoTARAC also notes that this will be particularly pertinent as Governments are seeking efficiency improvements through reduction in 'red tape'. We believe the proposals would result in a more robust framework and increased transparency for the recognition of income for NFP entities, and it would be more appropriate as it outweighs the additional costs.

### **Guidance on Tax Revenue (Issues specific to the Commonwealth)**

The exposure draft includes detailed application guidance on the recognition of tax revenues. HoTARAC recommends clarification of circumstances where the guidance is unclear or may not achieve the desired purpose as detailed below.

Paragraph AG 24 requires the gross up of payable tax credits, which are defined as tax credits not limited to the amount of the taxpayer's tax liability for the period (AG 25). While we agree with the general principle and note that this would align with GFS; we note that this definition may include franking credits, which represents a credit to the taxpayer for tax paid on profits by the company paying the dividend. We recommend payable tax credits exclude franking credits (to avoid a double count of the tax paid in a gross up), either through an exclusion or by limiting payable tax credits to those that represent assistance under government programs.

Paragraph AG19 states "taxation income arising from a taxable event occurring (and creation of a tax receivable) is measured at the amount to which the entity expects to be entitled as a result of the event occurring". We understand this statement may be intended to prevent recognition of all revenue to which the taxing agency is theoretically entitled and an offsetting expense for tax avoidance. However, the use of the term 'expects' may be interpreted to mean the tax collected and be inconsistent with the proposed grossing up of impairment amounts under BC79. We recommend more explicit language be used.

Paragraph AG14 discusses taxable event and specifies that for income tax this is the end of the taxation period unless otherwise specified in the relevant law. We note that it can be difficult to identify the taxable event and this is further complicated by having recourse to taxation law. For example, this paragraph could be interpreted to mean that tax revenue is zero until 30 June each year, which would result in interim financial reports omitting the major source of government funding. As tax revenue is being collected throughout the year under a pay as you earn scheme, this would not be a faithful representation of the government's financial position. Alternative interpretations under the relevant legislation is that tax revenue would be recognised at the point when due or when assessable income is generated.

We also note that the provisions of the current paragraph 30 of AASB 1004, which supports the use of the 'tax liability method' is absent from paragraph AG23.

We recommend reviewing the guidance on revenue recognition points for taxation revenue, in particular the definition of a taxable event. We note that the current guidance of paragraph 30 of AASB 1004 works well in practice, particularly in accruing tax revenue where this can be reliably measured, and suggests this be retained if drafting provisions to incorporate the recognition points for different types of tax revenue proves too difficult in practice.

## General Comments

HoTARAC suggests paragraphs 36 and 37 of AASB 1004, that provided useful guidance on the recognition points for Parliamentary appropriations, be included in the new standard, as it will provide for consistency in reporting.

In paragraph AG18, assets are initially measured under AASB 9 Financial Instruments and we recommend that it be specified that these measurement principles only apply on initial recognition. As the taxation receivable potentially comprises all individuals eligible to pay tax in Australia, we strongly recommend that it be specified that, subsequent to initial measurement, the impairment provisions of AASB 136 Impairment of Assets apply, rather than a potential for interpretation that impairment be assessed under the individual measurement requirements of AASB 9.

Paragraph 40(a) requires a breakdown of authorised expenditure for the period, including the original amounts appropriated and supplementary amounts. Paragraph 40(b) subsequently requires disclosure expenditure for each of these items. We suggest the AASB specify that expenditure should only be allocated to the total amounts authorised for each type of appropriation.

Paragraph AG3 states that donations are normally free from specifications. However we note that bequests, a common form of donation, may be subject to conditions.

Paragraph AG8 states that bequeathed items are recognised when the period for challenging the will has expired. We suggest that legal advice be sought to establish how long this period would be. If the period is very long (measured in years) it may not be appropriate to defer recognition until such time.

AG29 requires recognition of transaction cost for fines. We recommend such costs be specified as they may be more difficult to determine in this context than for financial instruments.

BC34 notes that promised goods and service may include providing a service of standing ready to provide goods or services' to which the timing is not specified. We suggest the language be tightened, so that it is clear that stand ready obligations would still meet the sufficiently specific criterion.

Example 3B suggests that the capacity to earn interest on grant money is sufficient for control over the grant. However, we note the charity cannot spend the "capital" amount of the grant, so it is debatable whether it truly controls the funds and it should not be assumed that the recipient will gain control by breaching the terms of the grant agreement.

We note that there is limited guidance on the impact of related liabilities referred to in paragraphs 10 and 12 of AASB 10XX. It only becomes clear that income should be recognised as the related liability is derecognised in Example 17 of the Implementation Guidance. Paragraph 12(b) refers to guidance in paragraphs AG30-AG34 which does not exist.

### **Application to Expenses**

In the absence of more specific requirements, some jurisdictions have applied the converse of AASB 1004 Contributions to some types of expenses, in particular grant expenses. In circumstances where the amount of the grant is variable or subject to some contingency, this had led to difficulties in determining whether expenses should be recognised under AASB 137 or the principles derived from AASB 1004. We are of the view that this issue will be exacerbated if ED 260 is introduced, as there will be circumstances where there may be a clear intent for provision of goods and services (and hence application of the principles of AASB 15), but where the consideration for the goods or services is variable or contingent. In such circumstances, the accounting treatment for the liability element due to uncertainty of the timing or amount by result in application of AASB 137 instead.

For this reason, we have included the “non-exchange expenses” issue in our recent letter about standard-setting priorities. We acknowledge that this issue does not need to delay the consideration of ED 260, but encourage the AASB to address this issue as a subsequent matter of priority.