



Grant Thornton

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Dear Kris

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Exposure Draft ED 260 Income of Not-for-Profit Entities

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on ED 260 *Income of Not-for-Profit Entities* (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations (NFPs). This submission has benefited with input from our clients, and discussions with key constituents.

We support the AASB's proposals to provide additional guidance to assist NFP entities to apply the principles in AASB 15 *Revenue from Contracts with Customers* and replace the income recognition requirements in AASB 1004 *Contributions*. We believe these proposals would significantly assist NFP entities in implementing AASB 15 and substantially eliminate the current diversity in practice arising from varying interpretations of existing AASB 1004 requirements.

Our detailed comments are set out in the Appendix to this letter.

If you require any further information or comment, please contact Peter Kidd (peter.kidd@au.gt.com).

Yours sincerely

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National Audit Leader

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Appendix: Specific Matters for Comment

Question 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.**

We support the proposal to move away from the reciprocal vs. non-reciprocal distinction. The current reciprocal vs non-reciprocal approach in AASB 1004 is flawed and results in significant diversity in practice.

We support the performance obligations approach which we believe is technically sound and is consistent with principles in AASB 15 *Revenue from Contracts with Customers*.

Question 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.**

We agree that the promise has to be sufficiently specific to qualify as a performance obligation. However, we think the AASB should provide additional guidance and more illustrative examples to help NFP entities understand the meaning of ‘sufficiently specific’.

Question 3

Do you agree with the proposal in paragraphs IG19-IG30 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?

We prefer the approach of accounting for the separately identifiable donation component separately from revenue, however we think the customer's intention is irrelevant in determining/separately identifying the donation component and this requirement will prove to be difficult to implement. We encourage the AASB to consider the merits of characterising customer's intention as an indicator, rather than a determining factor, when determining whether a separately identifiable donation component exists.

Question 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:**
- optional, provided that the fair value of those services can be measured reliably; or**
 - 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.)

Consistent with the AASB's policy on transaction neutrality, we believe that the requirements with respect volunteer services should be the same for all not-for-profit entities regardless of whether they are in the private sector or public sector.

While acknowledging that the information about volunteer services is useful to users, our preference is to include this information outside of the entity's financial statements (perhaps this

could be dealt with as part of the AASB's service performance reporting project). This is because reliable measurement of volunteer services is likely to be difficult in practice, and recognition of volunteer service income could potentially distort the financial statements and cannot generally be justified on cost-benefit grounds.

Question 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.)

We agree with the proposals.

Question 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.)**

We have no specific comments.

Question 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:**
 - withdrawn;**

- 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
 - retained without amendment? (See also paragraphs BC84-BC94 of the Basis for Conclusions.)
- (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);
- (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);
- (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
- (e) the practical implications if the definition of ‘contributions by owners’ and AASB Interpretation 1038 were to be withdrawn?

We have no specific comments.

Question 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 (ie 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.)

We have no specific comments.

Question 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.)**

We believe that there needs to be some transition relief. Our preferred approach is determining fair value at the date of initial application (or at the beginning of the comparative period presented) as it will be difficult for entities to establish fair values for prior periods.

Question 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).**

We are not aware of any such issues.

Question 11

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

We believe that the proposals would result in financial statements that would be useful to users.

Question 12

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

We agree that the proposals are in the best interests of the Australian economy.

Question 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.

We have no specific comments.