



- Objective:** The objective of this paper is to seek input on:
- the application of the AASB 18 income statement categorisation requirements by not-for-profit (NFP) private sector entities and universities, including in relation to income recognised under AASB 1058; and
  - whether additional guidance or modifications to AASB 18 are needed for these entities preparing Tier 1 or Tier 2 GPFS.
- Providing input:** Stakeholders are invited to submit comments by completing the online survey by **5pm AEST Friday, 24 April 2026**. [Click here](#) to access the survey.
- Virtual roundtable:** A virtual roundtable will be held on **Thursday, 16 April 2026 (1:00pm–3:00pm AEST)**, to provide an open forum for sharing perspectives and exploring the issues in more depth with AASB staff and other stakeholders. [Click here](#) to register.
- ED 338/ITC 56 respondents:** Stakeholders who have already provided comment letters on ED 338 and ITC 56 regarding NFP private sector entities and universities are also invited to supplement their comments by completing the survey and attending the roundtable to contribute to the discussions.

**Disclaimer: This paper provides AASB staff observations that do not necessarily represent the views of the AASB or of all staff. Its contents do not constitute advice. The AASB expressly disclaims all liability for any loss or damages arising from reliance upon any information in this paper.**

## Introduction

### **Why are AASB staff seeking input?**

As noted in:

- (a) [ED 338](#) *Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation* (closed on 27 February 2026); and
- (b) [ITC 56](#) *Post-implementation Review of Tier 2 and the Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector* (closed on 22 January 2026),

the AASB is seeking feedback on the suitability of [AASB 18](#) *Presentation and Disclosure in Financial Statements* for NFP private sector entities and universities preparing Tier 1 and Tier 2 general purpose financial statements (GPFS).<sup>1</sup>

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1 ED 338 also proposed carve outs from certain AASB 18 requirements for superannuation entities and the following NFP public sector entities:

- (a) governments as defined in AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, and NFP public sector entities controlled by these governments; and
- (b) local government entities.

During the outreach activities on ED 338 and ITC 56, AASB staff heard the following key points.

- (a) Stakeholders generally consider Tier 2 GPFS presentation and classification requirements should align with those for Tier 1 GPFS within the same sector.
- (b) Stakeholders did not identify compelling reasons for NFP private sector entities to have different presentation and classification requirements from for-profit entities.
- (c) Some stakeholders questioned whether it is appropriate for NFP private sector entities and universities to classify income from donated assets and capital grants within the operating category. They also noted that, because ED 338 and ITC 56 did not specifically address the interaction between [AASB 1058 Income of Not-for-Profit Entities](#) and AASB 18, stakeholders may not have fully understood how AASB 18 might apply and therefore may have found it difficult to comment meaningfully on whether modifications or further guidance are needed.

To help address the concerns noted in point (c), this paper:

- (a) summarises the relevant requirements of AASB 1058 and AASB 18 using a question-and-answer format; and
- (b) sets out key matters for stakeholder consideration, highlighted in the blue “Questions to stakeholders” boxes.

To assist the AASB in assessing whether further guidance or modifications to AASB 18 are needed for NFP private sector entities and universities preparing Tier 1 or Tier 2 GPFS, stakeholders are invited to complete the online survey by **5pm AEST Friday, 24 April 2026**. [Click here to access the survey](#).

The virtual roundtable on **Thursday, 16 April 2026 (1:00pm–3:00pm AEST)**, will provide stakeholders with an opportunity to hear and discuss various perspectives on the application of AASB 18 by NFP private sector entities and universities. [Click here to register](#).

### **How does this consultation fit within the AASB’s project?**

Feedback from the survey, along with insights gathered from the roundtable, will be presented to the AASB at its June 2026 meeting as part of the analysis of input received on ED 338 on the application of AASB 18 by NFP private sector entities and universities.

Although the comment period for ED 338 closed on 27 February 2026, stakeholders from the NFP private and university sectors who have not yet responded are still welcome to provide written feedback. AASB staff will continue accepting late submissions relating to these sectors until Friday, 24 April 2026. However, to support more targeted and efficient analysis, AASB staff encourage these stakeholders to either complete [the survey](#) or address the “Questions to stakeholders” outlined in this staff paper as part of a submission letter to ED 338.

### **What if you have already provided a submission letter on ED 338 or ITC 56?**

If you have previously submitted a letter on ED 338 or ITC 56, you are invited to further share your views through [the survey](#). In Question 11, please indicate that you have already provided a submission letter. When summarising feedback on the application of AASB 18 by NFP private sector entities and universities, AASB staff will treat survey responses as the most up-to-date feedback, even where a submission letter has also been provided.

### **Structure of this paper**

This paper is structured as follows.

- [Topic 1](#): What are the categories for classifying income and expenses included in the statement of profit or loss?
- [Topic 2](#): What items of income and expenses are included in the operating, investing and financing categories
- [Topic 3](#): What are examples of common types of income and expenses that would be categorised in each of the operating, investing and financing categories (for activities outside the specified main business activities)?
- [Topic 4](#): How would income recognised under AASB 1058 be categorised?
- [Topic 5](#): What is a specified main business activity?
- [Topic 6](#): How are income and expenses relating to specified main business activities classified?
- [Topic 7](#): What are the changes to the dividend and interest cash flow classification?

**1. What are the categories for classifying income and expenses included in the statement of profit or loss?**

AASB 18.47 requires an entity to classify income and expenses included in the statement of profit or loss in one of the following five categories:

- (a) the operating category;
- (b) the investing category;
- (c) the financing category;
- (d) the income taxes category; and
- (e) the discontinued operations category.

AASB 18.69 requires an entity to present totals and subtotals in the statement of profit or loss for:<sup>2</sup>

- (a) operating profit or loss (or a corresponding not-for-profit label such as “operating surplus or deficit”);
- (b) profit or loss before financing and income taxes; and
- (c) profit or loss.

**2. What items of income and expenses are included in the operating, investing and financing categories?**

The table below summarises the income and expenses to be included in each category, assuming neither investing nor financing are main business activities.

<b>Operating</b>	All income and expenses not classified in other categories [AASB 18.52]
<b>Investing</b>	<p>Income and expenses rising from:</p> <ul style="list-style-type: none"> <li>(a) investments in associates, joint ventures and subsidiaries that are not consolidated (for entities preparing financial statements in accordance with <i>AASB 127 Separate Financial Statements</i>);</li> <li>(b) cash and cash equivalents; and</li> <li>(c) other assets if they generate a return individually and largely independently of the entity’s other resources (e.g. investment property, debt/equity investments).</li> </ul> <p>The income and expenses from these assets that must be included in the investing category are:</p> <ul style="list-style-type: none"> <li>(a) the income generated by the assets;</li> <li>(b) the income and expenses that arise from the initial and subsequent measurement of the assets, including on derecognition of the assets; and</li> </ul>

<sup>2</sup> Except for entities that provide financing to customers as a main business activity and are electing to apply the accounting policy set out in AASB 18.65(a)(ii).

	<p>(c) the incremental expenses directly attributable to the acquisition and disposal of the assets – for example, transaction costs and costs to sell the assets. [AASB 18.53, 54, B47 and B48]</p>
<b>Financing</b>	<p>Income and expenses from:</p> <p>(a) liabilities that arise from transactions that involve only the raising of finance, which include:</p> <p>(i) income and expenses that arise from the initial and subsequent measurement of the liabilities, including on derecognition of the liabilities; and</p> <p>(ii) the incremental expenses directly attributable to the issue and extinguishment of the liabilities – for example, transaction costs; and</p> <p>(b) liabilities that arise from transactions that do not involve only the raising of finance (e.g. trade payables, lease liabilities, provisions), which include:</p> <p>(i) interest income and expenses, but only if the entity identifies such income and expenses for the purpose of applying other requirements in Australian Accounting Standards; and</p> <p>(ii) income and expenses arising from changes in interest rates, but only if the entity identifies such income and expenses for the purpose of applying other requirements in Australian Accounting Standards.</p> <p>[AASB 18.59, 60, 61, B53 and B54]</p>

**3. What are examples of common types of income and expenses that would be categorised in each of the operating, investing and financing categories (for activities outside the specified main business activities)?**

<b>Operating</b>	<ul style="list-style-type: none"> <li>• Revenue from customers</li> <li>• Income arising from donated assets and capital grants [this topic is discussed in <a href="#">Topic 4</a>]</li> <li>• Employee related expenses</li> <li>• Depreciation of property, plant and equipment</li> <li>• Gain/(loss) on disposal of property, plant and equipment</li> <li>• Lease expense (excluding interest)</li> </ul>
<b>New subtotal</b>	<b>Operating profit (loss)</b>
<b>Investing</b>	<ul style="list-style-type: none"> <li>• Interest income from cash and cash equivalents</li> <li>• Net gains (losses) on investments</li> <li>• Share of profit (losses) on investments accounted for using the equity method</li> <li>• Depreciation of investment property</li> <li>• Gain (loss) on disposal of investment property</li> </ul>
<b>New subtotal</b>	<b>Profit (loss) before financing and income taxes</b>

<b>Financing</b>	<ul style="list-style-type: none"> <li>• Borrowing costs</li> <li>• Interest expense and income and expenses arising from changes in interest rates on liabilities relating to employee benefits, provisions, leases etc.</li> </ul>
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**Please note:** In respect to income and expenses relating to liabilities arising from transactions that do not involve only the raising of finance, interest-related income and expenses must be categorised as financing, while income and expenses not relating to interest must be categorised as operating.

### **What have we heard so far?**

Of the stakeholders commenting on this matter to date, none have provided compelling reasons for universities or NFP entities in the private sector to be relieved from the requirement to categorise income and expenses into the operating, investing and financing categories in the statement of profit or loss. Some stakeholders commented that segregating investing and financing income and expenses from operating income and expenses would provide a better reflection of NFP entities' financial performance.

However, some stakeholders commented that, in certain cases, classifying income recognised under AASB 1058 within the investing category—where AASB 18 would otherwise require classification as operating—may be more appropriate (and vice versa). This is discussed in [Topic 4](#) below.

<p><b>Questions to stakeholders</b></p> <p>Other than income recognised under AASB 1058:</p> <p>Q1: Do you have significant concerns about requiring an NFP entity to categorise the items described in AASB 18.53, 54, B47 and B48 in the investing category (for example, interest income from cash and cash equivalents)? Please provide reasons for your response.</p> <p>Q2: Do you have significant concerns about requiring an NFP entity to categorise the items described in AASB 18.59, 60, 61, B53 in the financing category? Please provide reasons for your response.</p> <p>Q3: Do you have significant concerns about requiring an NFP entity to categorise interest income and expenses relating to liabilities arising from transactions that do not involve only the raising of finance (e.g., lease interest expense) as financing, while classifying the related non-interest income and expenses (e.g., amortisation of the right-of-use asset) as operating?</p>
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## **4. How would income recognised under AASB 1058 be categorised?**

Examples of income recognised under AASB 1058 include:

- (a) grants, donations and bequests
- (b) volunteer services (if recognised)
- (c) taxes, rates, fines
- (d) donated assets.

These types of income would be categorised as operating under AASB 18 (unmodified). This is because:

- (a) they do not meet the 'investing' description in AASB 18.53 since they are not income from:
  - investments in associates, joint ventures or unconsolidated subsidiaries;

- cash and cash equivalents – while grants, donations and bequests could be received in cash, it does not fall within AASB 18.53(b) (and therefore not within AASB 18.54(b)) because AASB 18.53(b) refers to income **from** cash and cash equivalents, not the receipt of cash or a cash equivalent itself; and
- assets that generate a return individually and largely independently of the entity’s other resources – while an NFP entity may receive an asset that could be held as an investment property, it does not fall within AASB 18.53(c) (and therefore not within AASB 18.54(b)) because AASB 18.53(c) refers to income **from** such assets, not the receipt of the asset itself; and

(b) they do not meet the ‘financing’ description in AASB 18.59 since they are not arising from liabilities.

AASB 1058.15–16 requires an NFP entity to recognise a liability on initial recognition of a transfer of a financial asset to enable the entity to acquire or construct a recognisable non-financial asset to be controlled by the entity (for the purposes of this paper, such transfers are referred to as ‘capital grants’).

The income recognised by the NFP entity as it unwinds a liability arising from a receipt of a capital grant is also categorised as operating. In addition to the reasons noted above, it could also be argued that the income is excluded from being investing income by analogy with AASB 18.B48(a) and B49(e), which together exclude from the investing category the income and expense from the derecognition of property, plant and equipment. That is, classification of income and expense from the initial recognition of property, plant and equipment would follow the classification of income and expense from the derecognition of property, plant and equipment, as operating.

### **What have we heard so far?**

The comments of stakeholders who provided feedback specifically on the categorisation of income recognised under AASB 1058 included:

- (a) **Income from initial recognition of donated assets and from the unwinding of a liability relating to capital grants** – several stakeholders suggested that such income should be permitted to be classified within the investing category. They considered this approach is more appropriate because it would exclude non-recurrent income from the “operating profit or loss” subtotal and provide a clearer indication of an NFP entity’s underlying operating performance. In contrast, one stakeholder noted that certain NFP entities—particularly large charities and universities—may regularly receive donated assets. For these entities, it would be more appropriate to classify the related income within the operating category, as such income is not “investing” in nature and is related to the receipt of assets to help NFP entities further their objectives.
- (b) **Earnings from donated assets** – some stakeholders noted that bequests requiring bequeathed assets to be used for a particular charitable purpose might also stipulate that any related earnings (for example, interest on donated cash or dividends on donated shares) are also used for the same purpose. In such cases, they argued that such earnings should be classified within the operating category, as the related expenditure—incurred for charitable purposes—is classified as operating. They also noted that the same rationale should apply to the classification of the related cash flows: because the earnings ultimately fund charitable activities, an operating classification for both inflows and outflows would be more appropriate.

AASB staff observed that AASB 18:

- (a) specifies the items to be categorised in the investing and financing categories, with all remaining income and expenses required to be classified as operating. Accordingly, classifying income from donated assets and capital grants as investing would be a departure from AASB 18; and

- (b) does not prohibit an entity from distinguishing, within a category, income and expenses arising from recurrent transactions from those arising from non-recurrent transaction. However, additional subtotals and clear labelling would be needed to ensure the financial statements are understandable.

#### Questions to stakeholders

Q4: Given that AASB 18 does not prohibit an entity from distinguishing, within a category, income and expenses arising from recurrent transactions from those arising from non-recurrent transactions, is there a need for the AASB to modify AASB 18 or provide further guidance on this matter? Please provide reasons for your response.

Q5: Have you identified any NFP-specific circumstances that would justify departing from the income statement classification requirements in AASB 18—for example:

- (a) presenting items in operating that AASB 18 would otherwise classify as investing, or
- (b) presenting items in investing that AASB 18 would otherwise classify as operating?

If so, please describe these circumstances and explain why an alternative classification would be more appropriate.

## 5. What is a specified main business activity?

AASB 18.49 requires an entity to assess whether it has a specified main business activity – that is a main business activity of:

- (a) investing in particular types of assets; or
- (b) providing financing to customers.

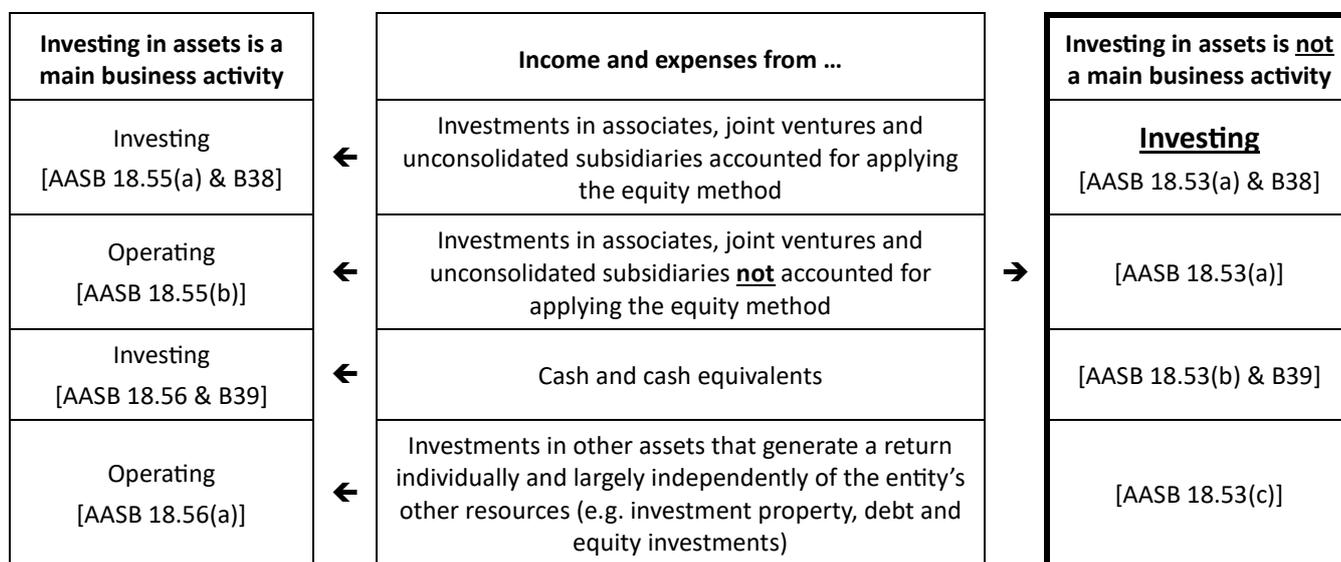
AASB 18.B34–B35 states that, in general, investing in assets or providing financing to customers is likely to be a main business activity of an entity if it uses a particular type of subtotal relating to investing or financing as an important indicator of operating performance. Important indicators of operating performance might be subtotals that:

- (a) help explain operating performance externally; or
- (b) assess or monitor operating performance internally.

Whether investing in assets or providing financing to customers is a main business activity of the entity is a matter of fact and not merely an assertion. An entity shall use its judgement to assess whether investing in assets or providing financing to customers is a main business activity and that assessment shall be based on evidence. [AASB 18.B33]

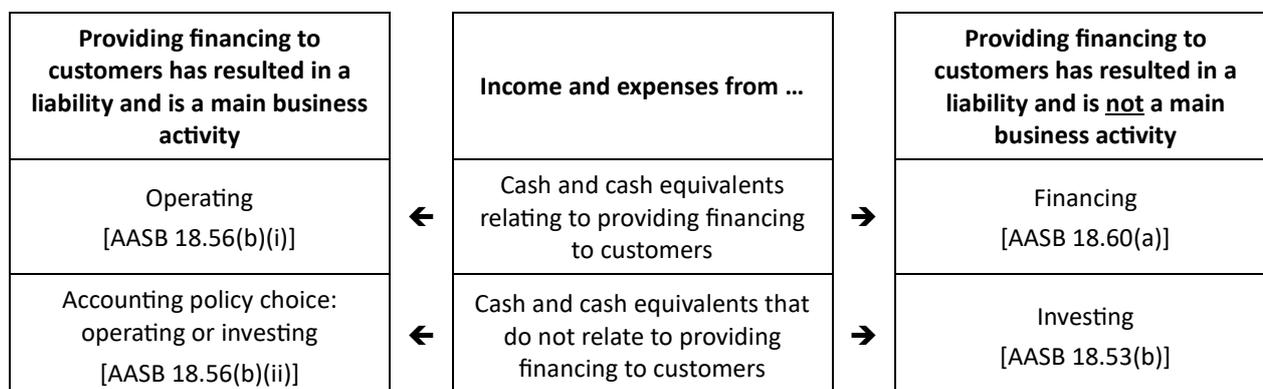
## 6. How are income and expenses relating to specified main business activities classified?

The following diagram summarises the categorisation of income and expenses for investment in specified assets, depending on whether investing in assets is a main business activity.



**Please note:** Income and expenses arising from cash and cash equivalents and investments in associates, joint ventures and unconsolidated subsidiaries accounted for applying the equity method are required to be categorised as investing, irrespective of whether investing in such assets is considered a main business activity.

The following diagram summarises the categorisation of income and expenses from cash and cash equivalents, depending on whether providing financing to customers is a main business activity.



### **What have we heard so far?**

Some stakeholders provided verbal feedback on classifying income and expenses into main business activities during the roundtables held on 18 February and 27 February. Their comments include the following:

- (a) Determining an entity's "main business activity" may be challenging for certain NFP entities whose operations do not align neatly with traditional operating, investing or financing categories. For example, microfinance charities provide loans to deliver social benefits rather than operate as financial service providers.

- (b) Further to point (a), some NFP entities hold only cash and investments and use the returns solely to fund donations, creating potential mismatches if investment income and the related charitable expenditures fall into different categories, which could confuse users of GPFS and obscure the net outcome.
- (c) The comparability of GPFS would diminish if entities with similar activities classify income and expenses differently based on their assessment of whether they invest in specified assets or provide financing as a main business activity. Several stakeholders emphasised the importance of maintaining comparability, particularly among universities.

### **ED 338 perspective**

ED 338 does not propose any NFP entity-specific requirements or guidance to be included in AASB 18 for assessing whether an entity invests in assets or provides financing to customers as a main business activity and notes the following.

- (a) The guidance in AASB 18.B34 and B35 (and related paragraphs) can be applied directly in an NFP context. Specifically, if an NFP entity uses a subtotal of income and expenses arising from investing or financing activities to assess or monitor its operating performance, this provides evidence that investing in assets or providing financing to customers is a main business activity.
- (b) AASB 18.B33 states that “Whether investing in assets or providing financing to customers is a main business activity of the entity **is a matter of fact and not merely an assertion**. An entity shall use its **judgement** to assess whether investing in assets or providing financing to customers is a main business activity and that assessment shall be based on evidence.” [emphasis added]

From a practical perspective, staff make the following observations regarding investing in specified assets.

- (a) Where an NFP entity invests in associates, joint ventures and unconsolidated subsidiaries accounted for applying the equity method, or cash and cash equivalents, classifying such investing as a main business activity does not affect income statement classification. Under AASB 18, income and expenses relating to these assets are always classified in the investing category, regardless of whether the investing activity is considered a main business activity.
- (b) It is typically less common for NFP entities (relative to for-profit entities) to hold significant balances (relative to their overall balance sheet) in the following types of assets. Therefore, it would be relatively uncommon that income and expenses from the following assets would be used as important indicators of an NFP entity’s operating performance.
  - (i) financial assets other than cash and cash equivalents;
  - (ii) investments in associates, joint ventures and unconsolidated subsidiaries not accounted for applying the equity method; and
  - (iii) other assets that generate a return individually and largely independently of the entity’s other resources (e.g. investment property).
- (c) Those limited cases in which an NFP entity might have investing as a main business activity would typically be relatively straight forward.

With respect to providing financing to customers, staff consider it uncommon for NFP entities to incur significant liabilities (relative to their overall balance sheet) for the purpose of providing financing to **customers**. Accordingly, it would be uncommon for financing activities to be regarded as a main business activity.

### Questions to stakeholders

- Q6: Do you agree that NFP entities should be required to assess whether they invest in assets or provide finance to customers as a main business activity for the purposes of categorising income and expenses? Please provide reasons for your response.
- Q7: If you agree that NFP entities should be required to assess whether they invest in assets or provide finance to customers as a main business activity, aside from the guidance in AASB 18.B34–B35 (and related paragraphs), have you identified any additional guidance that would assist an NFP entity in making the assessment? If so, please describe the guidance and explain why it would be helpful.
- Q8: Overall, do you agree NFP entities should be required to classify income and expenses into the operating, investing and financing categories, including that the benefits would outweigh the costs? Please provide reasons for your response.

## 7. What are the changes to the dividend and interest cash flow classification?

The following table summarises the relevant requirements in AASB 107 *Statement of Cash Flows*, before and after incorporating the AASB 18 amendments.

	Current classification choices in AASB 107	Classification after incorporating AASB 18 amendments
<b>Dividends paid</b>	Operating or financing	Financing [AASB 107.33A]
<b>Dividends received</b>	Operating or investing	Investing* [AASB 107.34A(b)]
<b>Interest paid</b>	Operating or financing	Financing [AASB 107.34A(a)]
<b>Interest received</b>	Operating or investing	Investing* [AASB 107.34A(b)]

\* If an entity's main business activities include investing this would be classified in operating.

### **What have we heard so far?**

Some stakeholders commented that, conceptually, aligning cash flow classifications with the corresponding categories in the statement of profit or loss could improve the usefulness of GPFs for users. However, consistent with the views described in [Topic 4](#) and [Topic 6](#), several stakeholders also noted that dividends and interest received—whether from the entity's own investments or from bequeathed assets—ultimately support an NFP entity's core objectives. Accordingly, they considered it more appropriate to classify the related cash inflows and outflows as operating cash flows.

### **ED 338 perspective**

ED 338 does not propose any modifications to the revised AASB 107 for NFP private sector entities or universities. AASB staff observed that a for-profit entity may also use dividends and interest received to fund its operations; and therefore, unless the entity has a specified main business activity, related cash inflows and outflows are categorised differently. Such cash inflow and outflow mismatches are not specific to NFP entities.

**Questions to stakeholders**

Q9: Do you have significant concerns about requiring an NFP entity to classify cash flows from dividends and interest paid as financing cash flows, and dividends and interest received as investing cash flows? Please provide reasons for your response. If you consider an alternative classification would be more appropriate, please explain why.

Q10: Do you have any comments on applying other aspects of AASB 18 to NFP private sector entities or universities (e.g. presenting operating expenses to provide a useful structured summary, disclosing information about management-defined performance measures, and aggregation and disaggregation requirements)?

Q11: Have you submitted a comment letter on ED 338 or ITC 56?