Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	Not-for-Profit Guidance on Income and Expense Categorisation	**Meeting:**	AASB August 2026 (M222)
Topic:	Categorising income recognised under AASB 1058	**Agenda Item:**	5.2
		Date:	12 August 2026
Contact(s):	Patricia Au pau@aasb.gov.au Angus Thomson athomson@aasb.gov.au Claire Thomson cthomson@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High High Develop Exposure Draft

Objective of this paper

1 To assist the development of the Exposure Draft, the objectives of this paper are for the Board to:

(a) **consider** potential challenges that NFP entities may encounter in applying the AASB 18 classification requirements to income recognised under AASB 1058; and

(b) **decide** the approach to take when developing the Exposure Draft, including whether to propose mandatory Australian application guidance and the matters that should be exposed for stakeholder comment.

2 The abbreviations noted in the Cover Memo apply to this paper.

Introduction and structure of this paper

3 AASB 1058 is an Australian-specific NFP Standard. It applies to income from transactions that are outside the scope of AASB 15 *Revenue from Contracts with Customers*, including transactions in which the consideration to acquire an asset is significantly less than fair value principally to enable an NFP entity to further its objectives.

4 AASB 1058 requires an NFP entity to:

(a) recognise income immediately upon receipt of a transferred asset, including cash, measured at the fair value of the asset received less any related liability recognised (AASB 1058.10); and

(b) recognise a liability when it receives a "transfer of a financial asset that enables the entity to acquire or construct a recognisable non-financial asset to be controlled by the entity" (AASB 1058.16). For ease of reference in this paper, those transfers are referred to as capital grants. Under AASB 1058, as the entity satisfies the related obligations income is recognised and the liability is unwound.

5 In responding to ED 338, some stakeholders sought clarification on the way AASB 18 applies to several issues relevant to NFP entities. Each issue is discussed separately in this paper.

(a) Section 1: How should AASB 18.53 and 54 apply to income arising from the initial recognition of donated cash and donated non-cash assets recognised under AASB 1058?

(b) Section 2: How should income from the unwinding of a liability relating to capital grants be categorised?

(c) Section 3: Whether to address the potential confusion arising from different notions of operating and investing activities in AASB 18 and AASB 107 *Statement of Cash Flows*?

(d) Section 4: Is there a basis for classifying investment earnings in the operating category when those returns are used to fund an NFP entity's charitable activities, where investing in assets is not an SMBA?

6 Section 5 discusses the approach to developing the Exposure Draft.

Summary of staff recommendations

7 Staff recommend that the Exposure Draft propose adding mandatory application guidance in an Australian Appendix to AASB 18 to clarify that:

(a) income arising from the initial recognition of donated assets and income arising from the unwinding of liabilities relating to capital grants are classified in the operating category;

(b) the notions of operating, investing and financing activities in AASB 18 are not intended to be equivalent to those used in AASB 107; and

(c) investment income earned on donated financial assets remains subject to the classification requirements in AASB 18 and is classified in the investing category unless investing in assets is an SMBA, and highlight that additional disclosures may assist users in understanding restrictions attached to donations.

Section 1: How should AASB 18.53 and 54 apply to income arising from the initial recognition of donated cash and donated non-cash assets recognised under AASB 1058?

8 AASB 18.53 and 54 specify the types of income and expenses that are required to be classified in the investing category. They are reproduced below, with key text shaded in blue.

> 53 Except as required by paragraphs 55–58 for an entity that has a specified main business activity, an entity shall classify in the investing category income and expenses specified in paragraph 54 from:
>
> (a) investments in associates, joint ventures and unconsolidated subsidiaries (see paragraphs B43–B44);
>
> (b) cash and cash equivalents; and
>
> (c) other assets if they generate a return individually and largely independently of the entity's other resources (see paragraphs B45–B49).
>
> 54 The income and expenses from the assets identified in paragraph 53 that an entity shall classify in the investing category comprise the amounts included in the statement of profit or loss for (see paragraph B47):
>
> (a) the income generated by the assets;
>
> (b) the income and expenses that arise from the initial and subsequent measurement of the assets, including on derecognition of the assets; and
>
> (c) the incremental expenses directly attributable to the acquisition and disposal of the assets – for example, transaction costs and costs to sell the assets.

9 Almost all stakeholders who commented on ED 338 interpreted AASB 18.53(b) and 54(b) as requiring income arising from the initial recognition of donated cash to be classified in the investing category.

10 Stakeholders also interpreted AASB 18.53(c) and 54(b) as requiring income arising from the initial recognition of donated non-cash assets to be classified based on the nature of the asset received or how the recipient intends to use the asset. For example:

Donated asset received	**Classification**
Shares	Investing
Investment property	Investing
Property, plant and equipment	Operating (because property, plant and equipment does not generate a return individually and largely independently of the entity's other resources).

11 Notwithstanding those interpretations, stakeholders generally considered that income arising from donations should be presented in the operating category of an NFP entity's statement of profit or loss.

12 Staff consulted IASB staff regarding the background to the IASB's deliberations that led to IFRS 18.53(b) and 54(b) and the reference to income arising from the initial recognition of assets. IASB staff noted that:

(a) the application of those paragraphs to income from government grants recognised under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* was not specifically considered by the IASB during the development of IFRS 18;

(b) AASB 18.53 refers to income and expenses arising **from** the assets identified in subparagraphs (a)–(c), which was not intended to include income arising from the receipt of donated cash or donated non-cash assets;

(c) the lead-in sentence to AASB 18.54 was intended to indicate the paragraph applies only to income and expenses identified in AASB 18.53; and

(d) the investing category and the financing category described in IFRS 18 was not intended to capture income arising from donations.

Staff view

13 Staff consider that:

(a) there is no conceptual basis for categorising income arising from donations outside the operating category; and

(b) notwithstanding IASB staff background information indicating the conclusion described in (a) follows from the intended reading of AASB 18.53 and 54, given that almost all Australian stakeholders interpreted those paragraphs differently and such income is prevalent in the NFP sector, there is merit in clarifying that income arising from initial recognition of donated cash and donated non-cash assets is classified in the operating category.

Question for the Board
Q1: Do Board members agree that the Exposure Draft should propose clarifying that income arising from the initial recognition of donated cash and donated non-cash assets recognised under AASB 1058 is classified in the operating category?

Section 2: How should income from the unwinding of a liability relating to capital grants be categorised?

14 AASB 1058.16 requires an NFP entity to recognise a liability at the initial recognition of a capital grant. AASB 1058.17 requires the entity to recognise income, and reduce the liability, when (or as) it satisfies its obligations under the transfer.

15 In responding to ED 338, some stakeholders expressed a view that capital grants are inherently investing in nature and should not be included in the operating category in the statement of profit or loss. They are concerned that including income from the unwinding of a capital grant liability in the operating category could result in a distortion of reported operating performance and mislead users.

Staff analysis

16 As discussed in Section 1, staff consider that income arising from initial recognition of donated cash or donated non-cash assets should be categorised in the operating category. Staff considered whether income arising from the unwinding of a liability related to a capital grant is of a different nature from income arising from the receipt of a donated non-cash asset, such that different categorisation would be justified.

17 In paragraph BC95 of the Basis for Conclusions to AASB 1058, regarding transfers made “to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity”, the Board noted that the transferor’s intention is, in substance, to provide a specific non-financial asset to the recipient; and the cash received is merely the mechanism by which that asset is acquired or constructed.

18 Staff consider that the requirements in AASB 1058.16 and 17 mean that a grant received and its related liability are two aspects of the same transaction. The liability does not arise from a separate

financing arrangement or investment activity. Rather, it reflects the recipient's obligation to use the transferred resources in accordance with the conditions attached to the grant. Accordingly, staff consider that income recognised from the unwinding of the liability should be classified in the same category as other grant income.

19 Staff also observe that assets acquired or constructed using transfers received "to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity" would typically be recognised as property, plant and equipment. This is because income recognised under AASB 1058 arises from transfers received principally to enable an NFP entity to further its objectives (AASB 1058.1).

20 Under AASB 18, income and expenses relating to property, plant and equipment are classified in the operating category rather than the investing category (AASB 18.B48–B49). Consistent with this treatment, staff consider that income arising from the unwinding of a liability relating to a capital grant should also be classified in the operating category of the statement of profit or loss.

Staff view

21 Staff consider that income recognised from the unwinding of a liability relating to a capital grant should be classified in the operating category because the liability and related income arise from the same underlying transfer transaction recognised under AASB 1058 and do not represent a separate investing or financing activity.

Question for the Board

Q2: Do Board members agree that the Exposure Draft should propose clarifying that income recognised from the unwinding of a liability relating to a capital grant is classified in the operating category?

Section 3: Whether to address potential confusion arising from different notions of operating and investing activities in AASB 18 and AASB 107?

22 Staff observe that the views expressed by the stakeholders referred to in paragraph 15, namely that capital grants are inherently investing in nature, may be influenced by the requirements of AASB 107. AASB 107 defines investing cash flows as cash flows from "the acquisition and disposal of long-term assets and other investments not included in cash equivalents."

23 Staff consider that some stakeholders may be applying the notion of investing activities in AASB 107 when assessing how grant income should be categorised in the statement of profit or loss under AASB 18. Consequently, staff consider that there is potential for confusion because similar terminology is used in AASB 18 and AASB 107, but the terms are not intended to have the same meaning. This appears particularly relevant for NFP entities when determining whether income associated with capital grants should be classified in the operating or investing category in the statement of profit or loss.

24 Staff also note that, at its June 2026 meeting, the IASB discussed improving the classification and presentation of **cash flows** related to government grants recognised under IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*. The IASB tentatively decided to propose requiring an entity:

(a) to classify receipts from government grants related to assets[1] as **investing cash flows**; and

(b) to classify receipts from government grants related to income as operating cash flows.

25 Staff acknowledge that any future IASB proposals may help explain why different categorisation outcomes can arise in the statement of cash flows and the statement of profit or loss. However:

(a) the IASB decisions are tentative and may change during due process; and

(b) IAS 20 (and AASB 120) does not apply to Australian NFP entities.

26 Accordingly, staff do not consider that the IASB's project removes the need to clarify the application of AASB 18 to Australian NFP entities. Rather, the feedback received suggests that additional explanation may be helpful to address potential confusion arising from the different notions of investing activities in AASB 18 and AASB 107.

Staff view

27 Staff consider there is merit in clarifying that the notions of operating, investing and financing activities in AASB 18 are not intended to be equivalent to those used in AASB 107. Such clarification would help address stakeholder confusion regarding the categorisation of income recognised under AASB 1058.

Question for the Board

Q3: Do Board members agree that the Exposure Draft should propose clarifying that categorisation under AASB 18 is determined using a different notion from the classification of related cash flows under AASB 107?

Section 4: Is there a basis for classifying investment earnings in the operating category when those returns are used to fund an NFP entity's charitable activities, where investing in assets is not an SMBA?

28 A small number of stakeholders – while supporting the proposal for NFP private sector entities and higher education providers to categorise income and expenses into the operating, investing and financing categories – expressed a preference for investment earnings that will ultimately be used for charitable purposes to be classified as operating. This was on the basis that the related charitable expense is operating. Adopting this approach would depart from AASB 18.53, which requires income generated from cash and cash equivalents and financial assets to be classified in the investing category unless investing in assets is a main business activity.

29 Staff considered these concerns and note the following:

(a) a for-profit entity may similarly use investment earnings to fund its operations. However, unless investing in assets is a main business activity, AASB 18 requires investment income to be classified separately from operating income and expenses. Accordingly, such classification mismatches are not unique to NFP entities; and

1 Defined in IAS 20: "Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held."

(b) if a majority, or all, of an NFP entity's investment earnings are used to fund its operations (i.e. charitable activities), this may indicate that investing in assets is a main business activity. In such cases, AASB 18 requires the related investing income and expenses to be classified within the operating category.

30 Some stakeholders noted that grants may be received well in advance of the related expenditure. In such cases, grantors may stipulate that both the grant funding and any interest earned on those funds be used for a specified operating (or charitable) purpose. In some circumstances, entities account for the interest as part of the overall grant arrangement in accordance with AASB 15 *Revenue from Contracts with Customers*. Stakeholders suggested that classifying the interest income in the investing category under AASB 18, while classifying the underlying grant income recognised on receipt in the operating category, may not provide useful information to users (including the grantor).

31 Some stakeholders also argued that, where a grant agreement requires both the principal and any interest earned to be used for a specified operating purpose, the interest is, in substance, part of the funding provided by the grantor rather than a return generated from the entity's discretionary investment activities. On this basis, they considered that the interest income should be classified in the operating category.

32 Staff consider that the matters described in paragraphs 30–31 could be addressed through disclosures explaining grants received in advance of expenditure, grantor-imposed restrictions, and the classification of related interest income in the statement of profit or loss and statement of cash flows. Such disclosures would help users understand the economic relationship between the grant funding and the related interest income while preserving consistent application of AASB 18. Staff also note that disclosures of this nature are encouraged by AASB 1058.37 and that feedback obtained during the Post-implementation Review of Income of Not-for-Profit Entities indicated that such disclosures are useful to users.[2] Additionally, NFP entities may apply AASB 18.20 and 43 to provide additional disclosures and use clear descriptions of line items to help users understand the presentation of investment income that is subject to restrictions.

33 AASB 1058.37 and AASB 18.20 and 43 are reproduced below for context, with key text shaded in blue.

AASB 1058.37

An entity is encouraged to disclose information about externally imposed restrictions that limit or direct the purpose for which resources controlled by the entity may be used. For example, an entity may elect to disclose an explanation of the judgements used in determining whether funds are restricted and any of, or any combination of, the following:

(a) assets to be used for specified purposes;

(b) components of equity divided into restricted and unrestricted amounts; and

(c) total comprehensive income divided into restricted and unrestricted amounts – either on the face of the statement of profit or loss and other comprehensive income or in the notes.

AASB 18.20

An entity shall consider whether to provide additional disclosures when compliance with the specific requirements in Australian Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.

AASB 18.43

An entity shall label and describe items presented in the primary financial statements (that is, totals, subtotals and line items) or items disclosed in the notes in a way that faithfully represents the

2 See page 12 of the Feedback Statement – noting this feedback was received in relation to capital grants and the externally imposed restrictions attached to those grants.

> characteristics of the item (see paragraphs B24–B26). To faithfully represent an item, an entity shall provide all descriptions and explanations necessary for a user of financial statements to understand the item. In some cases, an entity might need to include in the descriptions and explanations the meaning of the terms the entity uses and information about how it has aggregated or disaggregated assets, liabilities, equity, income, expenses and cash flows.

Staff view

34 Staff consider that there is no conceptual basis to depart from the classification requirements in AASB 18 for investment income earned on donated financial assets, even when that income is restricted for charitable purposes. Accordingly, such income should be classified in the investing category unless investing in assets is a specified main business activity.

35 Staff also acknowledge stakeholder concerns regarding the relationship between restricted investment income and the activities it funds. Staff consider that these concerns may be addressed through disclosures, including disclosures about restrictions on funds and the relationship between investment income and related charitable expenditure.

Question for the Board

Q4: Do Board members agree that there is no conceptual basis to depart from AASB 18 for investment income on donated financial assets that will be used to fund charitable expenses?

Q5: Do Board members agree that the Exposure Draft should propose reminding preparers that additional disclosures may assist users in understanding the relationship between restricted investment income and the activities it funds?

Section 5: Approach to developing the Exposure Draft

36 Subject to Board members' views on Sections 1–4, staff have reached the following conclusions:

(a) income arising from the initial recognition of donated cash and donated non-cash assets recognised under AASB 1058 should be classified in the operating category;

(b) income arising from the unwinding of a liability relating to a capital grant should be classified in the operating category;

(c) there is merit in clarifying that the notions of operating, investing and financing activities in AASB 18 are not intended to be equivalent to the notions used in AASB 107; and

(d) there is no conceptual basis for departing from the AASB 18 requirements for classifying investment income earned on donated financial assets, and additional disclosures may assist users in understanding the relationship between restricted investment income and the activities it funds.

37 Assuming the Board agrees with the staff views outlined above, this section discusses how those conclusions could be reflected in the Exposure Draft.

Approaches in developing the Exposure Draft

38 Staff consider that the matters discussed in Sections 1 and 2, as summarised in subparagraphs (a) and (b) of paragraph 36, could be addressed in one of three ways:

(a) **Option 1 – Clarify the application of AASB 18.53 and 54 within the body of AASB 18.** Under this approach, an Aus paragraph would be inserted after AASB 18.54 to clarify that income arising from the initial recognition of donated assets and income arising from the unwinding of liabilities relating to capital grants are classified in the operating category.

(b) **Option 2 – Include examples in Appendix B of AASB 18.** Under this approach, an Aus paragraph would be inserted after AASB 18.B42 identifying income recognised under AASB 1058 as an example of income classified in the operating category.

(c) **Option 3 – Include mandatory application guidance in an Australian Appendix to AASB 18.** Under this approach, an Australian Appendix would explain how the principles in AASB 18 apply to income recognised under AASB 1058 and would clarify the resulting categorisation outcomes.

39 The matters discussed in Sections 3 and 4, as summarised in subparagraphs (c) and (d) of paragraph 36, could be addressed in one of the following ways:

(a) through mandatory application guidance (supported by explanation in the Basis for Conclusions to the Exposure Draft);

(b) solely through discussion in the Basis for Conclusions to the Exposure Draft; or

(c) through non-mandatory guidance outside Accounting Standards, such as Staff FAQs.

<u>Staff recommendation</u>

40 In Agenda Paper 5.1, staff recommend that the Exposure Draft propose adding mandatory application guidance in an Australian Appendix to AASB 18 to clarify the SMBA requirements for NFP entities.

41 Staff consider that, if the Board agrees to propose including an Australian Appendix, it would be preferable for all four matters discussed in this paper to be addressed through mandatory application guidance in that Appendix, supported by explanation in the Basis for Conclusions. This would enable all NFP-specific guidance relating to AASB 18 to be located in a single place.

42 Staff acknowledge that the matters discussed in Sections 3 and 4 could be dealt with solely through Basis for Conclusions material or in non-mandatory guidance outside of Accounting Standards. However, stakeholder feedback indicates that these issues are creating uncertainty in practice and may affect the consistent application of AASB 18. Accordingly, staff consider it would be preferable for the Exposure Draft to provide explicit application guidance rather than relying solely on explanatory material.

43 Staff also consider that including all NFP-specific guidance in a single Australian Appendix would:

(a) provide greater visibility for NFP preparers;

(b) consolidate all NFP-specific application guidance relating to AASB 18 in a single location;

(c) improve the readability of AASB 18 for for-profit entities by enabling NFP-specific guidance to be segregated from the body of the Standard; and

(d) enable the Board to provide more explanation of the interaction between AASB 18, AASB 1058 and AASB 107 than would be practicable through Aus paragraphs within the core text of AASB 18.

Questions for the Board

Q6: Do Board members agree that the matters discussed in Sections 1 and 2 should be proposed to be addressed through mandatory application guidance in an Australian Appendix to AASB 18 (Option 3)? If not, which alternative approach would Board members prefer?

Q7: Do Board members agree that the matters discussed in Sections 3 and 4 should also be proposed to be addressed through mandatory application guidance in the Australian Appendix to AASB 18, rather than solely through discussion in the Basis for Conclusions or through non-mandatory guidance outside the Accounting Standards?