Australian Government
Australian Accounting Standards Board

Cover Memo

Project:	Not-for-Profit Guidance on Income and Expense Categorisation	**Meeting:**	AASB August 2026 (M222)
Topic:	Guidance on classification of grant income and specified main business activities	**Agenda Item:**	5.0
		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 agenda item

1 At its May 2026 meeting (M220), the Board decided to develop an Exposure Draft to propose clarifying how income recognised under AASB 1058 should be categorised when applying AASB 18 by Not-for-Profit Private Sector Entities and Higher Education Providers preparing Tier 1 GPFS.

2 The objectives of this item are for the Board to:

(a) **consider** potential challenges that NFP entities may encounter in applying the requirements in AASB 18 to categorise income and expenses in the statement of profit or loss;

(b) **decide** the nature of any modifications or clarifications to AASB 18 requirements to be included in the Exposure Draft; and

(c) **decide** whether the forthcoming Exposure Draft should seek feedback from both Tier 1 and Tier 2 NFP entities (see paragraphs 7–10 below).

3 The Appendix outlines the abbreviations used in this Cover Memo and Agenda Papers 5.1–5.2.

Papers for this agenda item

4 In their responses to ED 338, some stakeholders requested clarification on two matters. Each matter is addressed in a separate paper:

(a) Agenda Paper 5.1 considers whether, and in what circumstances, an NFP entity might be considered to be investing in assets or providing financing to customers as a specified main business activity (SMBA), and therefore, be required to classify related income and expenses in the operating category; and

(b) Agenda Paper 5.2 clarifies how income recognised under AASB 1058 should be categorised.

5 The principles underlying the matters discussed in Agenda Papers 5.1 and 5.2 may also be relevant to NFP public sector entities that elect to classify income and expenses into the operating, investing and financing categories. Accordingly, references in this agenda item to "NFP entities" are intended to be read broadly and are not limited to NFP private sector entities and higher education providers preparing Tier 1 GPFS.

Summary of staff recommendations

6 Staff recommend that the Exposure Draft propose mandatory NFP-specific application guidance in an Australian Appendix to AASB 18 to:

(a) specify that the preparation of separate budgets, forecasts, performance reports or other disaggregated information relating to investing or financing activities may provide evidence that those activities are monitored by management in assessing the entity's operating performance and, therefore, may indicate that investing in assets or providing financing to customers is an SMBA, as contemplated by AASB 18.B35(b);

(b) include examples of cases in which an NFP entity may have an SMBA, depending on the facts and circumstances;

(c) clarify that income arising from the initial recognition of donated assets and from the unwinding of liabilities relating to capital grants recognised in accordance with AASB 1058 is classified in the operating category;

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

(e) clarify that 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.

Scope of the proposed Exposure Draft

7 The Board has not yet decided whether, and how, the presentation and classification requirements in AASB 18 will apply to NFP entities preparing Tier 2 GPFS. That decision will be informed by responses to ED 341, the comment period for which closes on 24 August 2026.

8 Nevertheless, staff recommend seeking feedback on the forthcoming Exposure Draft from both Tier 1 and Tier 2 NFP entities. Staff consider this appropriate for the following reasons.

(a) The issues addressed in Agenda Papers 5.1 and 5.2 arise from transactions commonly undertaken by NFP entities and are not specific to Tier 1 entities.

(b) During outreach on ED 338, staff observed that a significant proportion of feedback was provided by NFP entities preparing Tier 2 GPFS, despite the proposals being developed specifically for Tier 1 entities. Staff therefore sought additional feedback from Tier 2 stakeholders later in the comment period. That feedback informed both the development of ED 341 and the proposals discussed in Agenda Papers 5.1 and 5.2.

(c) Stakeholder feedback received to date indicates support for considering Tier 2 NFP implications. At the virtual roundtable on ED 341 held on 23 July 2026, most participants supported extending any Tier 1 NFP private sector reliefs or guidance to Tier 2 NFP private sector entities. Accordingly, seeking feedback from Tier 2 stakeholders on the forthcoming Exposure Draft is consistent with the stakeholder feedback already received and would assist the Board in assessing whether the proposed guidance is appropriate, proportionate and capable of being applied by Tier 2 NFP entities if the Board subsequently decides that some or all of the AASB 18 requirements should apply to those entities.

(d) Including Tier 2 NFP entities within the scope of this forthcoming Exposure Draft is not expected to affect the timing of finalising the proposed classification and presentation requirements in AASB 1060 or the ability of for-profit Tier 2 entities to early adopt the AASB 18-aligned requirements.

9 Staff expect to present both a summary of stakeholder feedback on ED 341 and a draft Exposure Draft arising from this project for the Board's consideration at its October 2026 meeting. Staff aims to publishing the Exposure Draft in November or December 2026.

10 Given these timelines, staff recommend that the forthcoming Exposure Draft seek feedback from both Tier 1 and Tier 2 NFP entities. This would enable the Board to consider stakeholder feedback on the proposed guidance across the NFP sector at the same time in 2027.

Question for the Board
Do Board members agree that the forthcoming Exposure Draft should seek feedback from both Tier 1 and Tier 2 NFP entities?

Appendix: Abbreviations

The following table outlines the abbreviations used in this Cover Memo and Agenda Papers 5.1–5.2.

AASB 18	AASB 18 *Presentation and Disclosure in Financial Statements*
AASB 107	AASB 107 *Statement of Cash Flows*
AASB 1058	AASB 1058 *Income of Not-for-Profit Entities*
AASB 1060	AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*
ED 338	ED 338 *Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation*
ED 341	ED 341 *Updating AASB 1060 to Align the Classification and Presentation Requirements with AASB 18*
GPFS	General purpose financial statements
IASB	International Accounting Standards Board
IFRS 18	IFRS 18 *Presentation and Disclosure in Financial Statements*
NFP	Not-for-profit
PIR	Post-implementation Review
Revised AASB 107	AASB 107 *Statement of Cash Flows* after incorporating changes made by AASB 18
SMBA	Specified main business activity as described in AASB 18