



Project:	Application of AASB 18 <i>Presentation and Disclosure in Financial Statements</i>	Meeting:	AASB 1 May 2025 (M212)
Topic:	NFP private sector entities preparing Tier 1 GPFS	Agenda Item:	5.2
		Date:	15 April 2025
Contact(s):	Sabine Schuhrer sschuhrer@asb.gov.au Patricia Au pau@asb.gov.au Angus Thomson athomson@asb.gov.au	Project Priority:	High
		Decision-Making:	High
		Project Status:	Decide on the standard-setting response

Objective of this paper

- 1 This paper is designed to be read after reading the ‘process undertaken in stakeholder consultations’ section of the Cover Memo (Agenda Paper 5.0).
- 2 In respect to not-for-profit (NFP) private sector entities preparing Tier 1 general purpose financial statements (GPFS), the objectives of this paper are for the Board to consider stakeholder feedback received from targeted consultations and **decide**:
 - (a) whether modifications to the requirements in AASB 18 *Presentation and Disclosure in Financial Statements* might be needed for these entities; and
 - (b) whether further work is needed to assess the need for guidance in clarifying certain AASB 18 principles in an NFP context for application by these entities.

Introduction – NFP-specific considerations

- 3 When effective, AASB 18 replaces AASB 101 *Presentation of Financial Statements*.
- 4 Currently NFP entities are applying the same AASB 101 requirements as for-profit entities in preparing Tier 1 GPFS. The Board did not modify any requirements or terminology in AASB 101 for NFP entities.¹
- 5 However, the more comprehensive AASB 18 requirements developed for for-profit entities might include terminology or principles that would need to be modified or explained for NFP entities.

1 The modifications made to IAS 1 *Presentation of Financial Statements* text in AASB 101 are related to references to Australian legislation, Conceptual Frameworks and on clarifying that local government and most government departments are reporting entities.

Structure of this paper and summary of staff recommendations

- 6 This paper contains two sections. The table below summarises the staff recommendations on each section.

Section	Staff recommendations
Section 1 : Applying AASB 18 to NFP private sector entities preparing Tier 1 GPFS	Staff recommend proposing in an Exposure Draft that NFP private sector entities preparing Tier 1 GPFS would be required to apply AASB 18 without modifications (other than clarifying certain AASB 18 principles in an NFP context discussed in Section 2).
Section 2 : Clarifying: <ul style="list-style-type: none">the objective of financial statements in AASB 18 – that refers to assessing the prospects for future net cash inflows to the entity; andthe criterion outlined in AASB 18.B80(a) regarding presentation and disclosure of expense line items – that refers to main components or drivers of the entity's profitability.	To assist NFP private sector entities preparing Tier 1 GPFS to apply the principles in AASB 18, staff recommend undertaking further work to: <ul style="list-style-type: none">(a) consider the best approach to providing further clarity on the objective of financial statements for NFP entities, particularly in view of the changes to the Conceptual Framework proposed in ED 334; and(b) consider whether the criterion outlined in AASB 18.B80(a) would require modification or guidance.

Next steps

- 7 Staff recommend proceeding to develop an Exposure Draft to seek public comment on the matters discussed in this paper.

Questions for Board members	
Q1	Do Board members agree with proposing in an Exposure Draft that NFP private sector entities preparing Tier 1 GPFS should be required to apply all requirements in AASB 18?
Q2	Do Board members agree with undertaking further work to consider how to clarify the objective of financial statements for these NFP entities, particularly in view of the changes to the Conceptual Framework proposed in ED 334?
Q3	Do Board members agree with undertaking further work to consider whether the criterion outlined in AASB 18.B80(a) would require modification or guidance in an NFP context?

Section 1: Applying AASB 18 to NFP private sector entities preparing Tier 1 GPFS

- 8 The questionnaire relating to NFP private sector entities preparing Tier 1 GPFS was provided to the AASB Not-for-profit Project Advisory Panel, which consists of 22 members. However, only one written response was received.
- 9 The questionnaire and the written response from the respondent are presented as Agenda Paper 5.5 in the supplementary folder for the Board's reference.
- 10 Staff have categorised the respondent's feedback based on the four key aspects of AASB 18 in the following table.

AASB 18 requirements	Respondent's comment
Presentation of income statement – to categorise income and expense into operating, investing and financing categories and present two new subtotals	There is no compelling reason for modifying the AASB 18 requirements to categorise income and expenses into the three new categories when preparing Tier 1 GPFS of NFP private sector entities. There will be a degree of cost and effort needed to categorise income and expenses into the three new categories, including costs to change systems. NFP private sector entities preparing Tier 1 GPFS are likely to be larger in size, or be subject to a high level of public interest and accountability. Therefore, the costs and efforts to apply AASB 18 would seem commensurate with added benefits for a clearer and more structured income statement.
Presenting operating expenses – permits mixed presentation of expenses by nature and by function	While there would be cost and effort involved in determining each expense line item, they are unlikely to be overly significant or disproportionate for NFP private sector entities preparing Tier 1 GPFS. There are likely to be benefits in the more structured and thoughtful approach to determining line items set out in AASB 18. Staff did not receive any other feedback relating to NFP private sector entities.
Aggregation and disaggregation – aggregate and disaggregate items based on characteristics and to consider the roles of the primary financial statements and the notes	The AASB 18 principles on aggregation and disaggregation appear sufficiently general to cater for NFP entities and that there does not appear to be an NFP-specific reason to modify these principles. Regarding cost and effort to apply these principles, the respondent commented that the general principle of a useful structured summary provides an appropriate guide to work out where effort should be applied, or avoided, to benefit users and achieve the best cost-benefit outcome.
Management-defined performance measures (MPMs) – disclose in a single note information about subtotals of income and expenses that the entity uses in public communications outside financial statements about management's view of an aspect of the entity's financial performance	MPMs are less common in the NFP private sector. NFP entities are more likely to provide a narrative explaining the reasoning behind results observed in their financial statements – e.g. a loss may be explained by way of reference to particular projects or trends, rather than a recalculation and presentation of alternative measures.

- 11 Staff note the number of NFP private sector entities preparing Tier 1 GPFS has not been the subject of thorough research, but in discussion with stakeholders (anecdotally), there are few such entities. Those same stakeholders also commented that NFP private sector entities preparing Tier 1 GPFS are likely to be operating in a similar way as for-profit entities. Therefore, it is unlikely that modifications to AASB 18 requirements would be necessary for these entities.
- 12 Based on limited stakeholder feedback, there do not appear to be any reasons to modify AASB 18 requirements for NFP private sector entities preparing Tier 1 GPFS.
- 13 **Staff recommendation:** Staff recommend proposing in an Exposure Draft that NFP private sector entities preparing Tier 1 GPFS would be required to apply AASB 18 requirements without modifications (other than clarifying certain AASB 18 principles in an NFP context discussed in Section 2).

Section 2: Clarifying certain aspects of AASB 18

- 14 As discussed in Agenda Paper 5.1, eight written responses were received from public sector stakeholders. Some of those stakeholders and the NFP private sector respondent have commented that there are two matters in AASB 18 that would benefit from clarification in an NFP context.
- 15 In Agenda Paper 5.1, staff recommend the Board propose in an Exposure Draft to keep the status quo for Whole of Government and General Government Sector, NFP public sector entities preparing Tier 1 GPFS, and local government entities to continue presenting financial statements using their existing formats and be regarded as being compliant with Australian Accounting Standards. If the Board agrees with that staff recommendation, the matters discussed in this Section will have little or no relevance to these public sector entities.
- 16 The stakeholder feedback received was in relation to NFP private sector entities and NFP public sector entities preparing Tier 1 GPFS. However, subject to the Board's work on updating AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (discussed in Agenda Item 8), the staff views discussed in this Section may also be relevant to NFP private sector entities preparing Tier 2 GPFS.
- 17 The two matters that stakeholders have raised that would benefit from clarification in an NFP context are:
 - (a) the objective of financial statements set out in AASB 18.9; and
 - (b) the criterion outlined in AASB 18.B80(a) – that refers to main components or drivers of the entity's **profitability** – regarding presenting and disclosing expense line items.
- 18 These matters are discussed in turn.

Section 2.1 The objective of financial statements

AASB 18
“The objective of financial statements is to provide financial information about a reporting entity’s assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management’s stewardship of the entity’s economic resources.” [AASB 18.9]
AASB 101
“... The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management’s stewardship of the resources entrusted to it ... This information, along with other information in the notes, assists users of financial statements in predicting the entity’s future cash flows and, in particular, their timing and certainty.” [AASB 101.9]

- 19 AASB 101.9 refers to “predicting the entity’s future cash flows” in describing the objective of financial statements. The Board did not modify the objective of financial statements stated in AASB 101 for NFP entities.
- 20 AASB 18.9 states that the objective of financial statements is to provide financial information that is useful for users in “assessing the prospects for future net cash **inflows** to the entity”. Since assessing future net cash inflows may not be a key focus of users of NFP entities GPFS, stakeholder input was sought on whether the objective of financial statements stated in AASB 18.9 is appropriate for NFP entities.
- 21 One respondent considers no modification is needed to AASB18.9 for NFP entities because AASB 18.9 notes that the objective of financial statements includes accountability for the stewardship of the entity’s resources.
- 22 However, all other respondents who commented on this matter consider that the objective of financial statements should be modified to better describe the information needs of users of NFP entities’ GPFS. They provided the following suggestions.
- (a) One respondent suggested that the term ‘net cash inflows’ should be changed to ‘net cash flows’, as the focus for NFP public sector entities is on the provision of services, rather than the generation of net cash inflows.
 - (b) Three respondents support clarifying the objective of financial statements consistent with the IPSASB’s Conceptual Framework, as “to provide financial information about a reporting entity’s assets, liabilities, net assets/equity, revenue, expenses and cash flows that is useful to users of financial statements for decision-making and to demonstrate the entity’s accountability for the resources entrusted to it”.
 - (c) Four respondents consider that the objective of financial statements should align with the Board’s decisions in finalising the [Conceptual Framework for Financial Reporting](#) (Conceptual Framework) for NFP entities. Paragraph 1.2 of the Conceptual Framework states that “the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to users **in making decisions relating to providing resources to the entity.**” [emphasis added] The Board is proposing in ED 334 [Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements](#) to add paragraphs Aus1.2.1 and Aus1.3.1 to the Conceptual Framework, which would clarify the resource allocation decisions of users of NFP entity GPFS.

Aus1.2.1 Among the users of financial information about a not-for-profit reporting entity are existing and potential resource providers (such as donors and other funders, taxpayers, lenders and other creditors, and investors), recipients of goods and services (such as beneficiaries, for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament). Such users may make resource allocation decisions in relation to not-for-profit entities that differ from those identified in paragraph 1.2. For example, donors and other funders decide whether to commit resources to an entity, taxpayers decide who should represent them in government, recipients decide whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers, and parliaments decide, on behalf of constituents, whether to support particular programmes for delivery by an entity. In relation to not-for-profit entities, where pertinent, **all references in the Conceptual Framework to ‘existing and potential investors, lenders and other creditors’ (and related terms) should be read as a reference to this broader range of users.** [emphasis added]

Aus1.3.1 In respect of not-for-profit entities, users (such as certain existing and potential resource providers) are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or nonfinancial), which in turn may depend, at least in part, on the entity’s prospects for future net cash inflows and management’s stewardship of the entity’s economic resources (see also paragraph Aus1.18.1). Users will, for example, be interested in the capability of the entity’s resources to provide goods and services in the future. Accordingly, in relation to not-for-profit entities, where pertinent, **references in this Conceptual Framework to ‘assessing prospects for future net cash inflows to the entity’, ‘assessing prospects for how future cash flows will be distributed among those with a claim against the reporting entity’ and ‘assessing management’s stewardship of the entity’s economic resources’ (and related terms) should be read in the context of the common information needs of users of general purpose financial reports of not-for-profit entities described in this paragraph.** [emphasis added]

- 23 Staff consider the wording in AASB 18.9 is no more for-profit-oriented than AASB 101.9. Since no NFP modification has been needed in AASB 101, modification to AASB 18.9 may not be necessary. Respondents’ feedback from targeted outreach indicates that further clarifications might be necessary for NFP entities in relation to the phrase “assessing prospects for future net cash inflows to the entity” in AASB 18.9. However, the proposed paragraph Aus1.3.1 of the Conceptual Framework in ED 334 clarifies that “assessing prospects for future net cash inflows to the entity” should be considered in the context of the common information needs of users of NFP entity GPFS.
- 24 Staff note that when developing the objective of AASB S2 *Climate-related Disclosures*, as a result of stakeholder feedback, the Board decided to require an NFP entity to refer to the descriptions of “general purpose financial reports” and “primary users of general purpose financial reports” in the *Framework for the Preparation and Presentation of Financial Statements* when applying AASB S2 (AASB S2 paragraph BC35).
- 25 **Staff recommendation:** Staff recommend undertaking further work to consider the best approach to providing further clarity on the objective of financial statements for NFP private sector entities preparing Tier 1 GPFS, particularly in view of the changes to the Conceptual Framework proposed in ED 334.

Section 2.2: Main components or drivers of the entity's profitability

AASB 18
<p>"In determining how to use the characteristics of nature and function to provide the most useful structured summary as required by paragraph 78, an entity shall consider:</p> <ul style="list-style-type: none">(a) what line items provide the most useful information about the main components or drivers of the entity's profitability ...(b) what line items most closely represent the way the business is managed and how management reports internally ...(c) what standard industry practice entails. If expenses are classified in the same way by entities in an industry, users of financial statements can more easily compare expenses between entities in the same industry.(d) whether the allocation of particular expenses to functions would be arbitrary to the extent that the line items presented would not provide a faithful representation of the functions. In such cases, an entity shall classify these expenses by nature." [AASB 18.B80]

- 26 AASB 18 requires an entity to consider other specific matters, as stated in AASB 18.B80(a)–(d), in determining how to use the characteristics of nature and function to provide the most useful structured summary of expenses.
- 27 Some respondents commented that the requirement in AASB 18.B80(a) for an entity to consider what line items provide the most useful information about "the main components or drivers of the entity's **profitability**" is not necessarily relevant in an NFP sector context.²
- 28 Some respondents suggested alternative terms to profitability, such as 'performance', 'operations' or 'operational activities'. One respondent commented that more structured examples should be provided for NFP entities.
- 29 **Staff recommendation:** Based on the stakeholder feedback, staff consider that further work is needed to consider whether the criterion outlined in AASB 18.B80(a) would require modification or guidance.

2 The principal objective of an NFP entity is not the generation of profit – as noted in paragraph Aus6.1 of AASB 102 *Inventories*, paragraph Aus6.1 of AASB 116 *Property, Plant and Equipment*, and paragraph Aus6.2 of AASB 136 *Impairment of Assets*.