



<b>Project:</b>	<b>Post-Implementation Reviews</b>	<b>Meeting:</b>	M201
<b>Topic:</b>	<b>Income of Not-For-Profit Entities</b>	<b>Agenda Item:</b>	8.0
		<b>Date:</b>	20 February 2024
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		<b>Decision-Making:</b>	Low
		<b>Project Status:</b>	Initial consideration stakeholder feedback

## Objective of this paper

- 1 The objective of this agenda item is for the Board to continue considering the detailed summaries of the feedback received, staff analysis and preliminary views of four of the [Invitation to Comment 50 Post-implementation Review – Income of Not-for-Profit Entities](#) (ITC 50) topics. The Board will not be asked to make any decisions at this meeting but rather to provide feedback and suggestions to staff for further analysis. Following the discussion at this meeting staff will develop recommendations and ask the Board to decide on possible next steps<sup>1</sup> at a future meeting.

## Attachments

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| Agenda Paper 8.1 | PIR Income of Not-For-Profit Entities – Principal v agent          |
| Agenda Paper 8.2 | PIR Income of Not-For-Profit Entities – Grants received in arrears |
| Agenda Paper 8.3 | PIR Income of Not-For-Profit Entities – Research grants            |
| Agenda Paper 8.4 | PIR Income of Not-for-Profit Entities – Statutory receivables      |

## Background and reasons for bringing this paper to the Board

- 2 The objective of this agenda item is for the Board to continue considering the detailed summaries of the feedback received, staff analysis and preliminary views of the remaining four ITC 50 topics:
  - (a) Topic 4: Principal v agent, including the appropriate recognition of financial liabilities;
  - (b) Topic 5: Grants received in arrears;

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1 See the post-implementation review decision-making process in Appendix A of [Agenda Paper 7.1 Cover Memo: PIR Income of Not-for-Profit Entities](#).

- (c) Topic 7: Accounting for research grants; and
  - (d) Topic 8: Statutory receivables.
- 3 The following ITC 50 agenda papers were presented to the Board at the November 2023 meeting:
- (a) [Agenda Paper 7.1 Cover Memo Income of Not-for-Profit Entities](#) including an overview of ITC 50, comment letters received and outreach activities and academic research papers. It also includes a summary of the ITC 50 topics presented to the Board at the October 2023 meeting (see paragraph 10 for papers presented) and the comments made by Board members in response to staff analysis and preliminary views on next steps;
  - (b) [Agenda Paper 7.2 PIR of Income of Not-for-Profit Entities – Sufficiently specific](#);
  - (c) [Agenda Paper 7.3 PIR of Income of Not-for-Profit Entities – Capital grants](#); and
  - (d) [Agenda Paper 7.4 PIR of Income of Not-for-Profit Entities – TFC clauses](#).

#### *Sufficiently specific*

- 4 At November 2023 meeting, a Board member raised concerns about whether the issues smaller Not-for-Profit (NFP) entities are experiencing have been adequately captured in the feedback received for this ITC 50 topic<sup>2</sup> and the Board directed staff to conduct further targeted outreach to assist the Board in deciding on the next steps.
- 5 Staff confirmed that the stakeholders noted by the Board member have been contacted and involved in the post-implementation review (PIR) outreach. Following the November 2023 meeting, staff also met with a stakeholder recommended by the Board member who raised the concerns. The stakeholder works in audit and assurance for a mid-tier practice. In summary, the discussion included:
- (a) tense discussions are occurring between preparers and auditors about which accounting standard should be applied to funding received. This has reduced since implementation however is still occurring where there is auditor rotation, where the incoming auditor has a different opinion on the accounting treatment;
  - (b) smaller NFP entities (approximate revenue of \$3 to \$10 million) have limited resources and difficulty interpreting and applying the accounting standard requirements. This may enhance the diversity of accounting treatment for similar agreements. Smaller entities may engage advisors to establish technical arguments for material amounts (although these amounts may be \$100,000 or less);
  - (c) entities may not be looking at the specific agreement to determine the accounting treatment and instead are using a matching approach or recognising revenue based on the intent of how the funding provider indicated they wanted the funds to be spent or alternatively basing their revenue recognition on agreement milestones rather than performance obligations;
  - (d) the arts industry and Aboriginal and Torres Strait Islander communities support sector experience difficulties because funding accounted for applying AASB 1058 *Income of Not-for-Profit Entities* (received for the 1 July to 30 June financial year) does not align with the reporting year (1 January to 31 December);

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2 Issues being experienced by stakeholders, related to the concerns, were also summarised in the [Topic 2: Differences between management accounts and statutory accounts and alternative revenue recognition models](#) agenda paper (October 2023).

- (e) entities may have difficulty meeting the audit evidentiary burden to meet the sufficiently specific criterion because agreements are verbal or granted via email. However, it was considered that the specificity of the written agreements had increased since implementation; and
- (f) the difficulty of applying the accounting standards is reduced for larger entities who have larger finance teams with more resources.

The discussion also included the government clawing back funds provided and auditors allowing different accounting treatment for this; segregation of agreements (i.e. performance obligations versus administrative component(s) of agreements) and the difficulty NFP entities have justifying the accounting treatment to auditors; and the potential complexity of fund accounting.

- 6 Staff consider the issues raised by the stakeholder are in line with the issues raised by other stakeholders during the outreach phase of the post-implementation review (PIR) as summarised in paragraphs 13 to 70 of Agenda Paper 7.2 *Sufficiently specific* (November 2023) and paragraphs 14, 21 to 23 and 26 to 34 of Agenda Paper 3.2.2 *Differences between management accounts and statutory accounts and alternative revenue recognition models* (October 2023). This indicates that the outreach performed was sufficient and highlights the issues that persist with the application of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 (the Standards) by NFP stakeholders. As outlined in paragraphs 110 and 122 of Agenda Paper 7.2, staff's preliminary view on next steps is that the feedback suggests further clarification and guidance of the sufficiently specific criterion may be needed and there is merit in undertaking some action to address the feedback, for example, a narrow-scope standard-setting project to assist with the judgement NFP entities are required to apply and increase consistent application of the sufficiently specific criterion. Further, as outlined in paragraph 138 of Agenda Paper 3.2.2, staff's preliminary view is that the Board could consider a research project to explore potential amendments to the Standards leveraging off the latest international standard-setting projects in this area such as IPSAS 47 *Revenue* and IFR4NPO standard (INPAG), including examining their compatibility with the Conceptual Framework applicable to NFP entities (including any anticipated changes from the AASB NFP Conceptual Framework project). This would include cost/benefit considerations as any approach would require a certain degree of the application of judgement to assess whether requirements for revenue recognition were satisfied.
- 7 To assist in making it clearer the stakeholders that provided feedback to staff during the outreach phase of this PIR, in this meeting's agenda papers, staff have included a table that summarises the details of the responses received.

#### *Capital grants*

- 8 The staff analysis and preliminary view on next steps in Agenda Paper 7.3 included that inventory, as long as it meets the conditions outlined in AASB 1058, can be accounted for as a capital grant and staff considered AASB 1058 includes adequate guidance to direct entities to account for it this way. Further, that no further work is required in this area. However, a Board member recommended guidance is developed to clarify the types of non-financial assets that could be subject to capital grant accounting. They considered guidance is needed because the stakeholder (ACAG) who raised the issue has technical accounting resources however they are still experiencing complexity in determining whether inventories can be accounted for as a capital grant.

#### *Termination for convenience (TFC) clauses*

- 9 One of staff's preliminary views on next steps in Agenda Paper 7.4 included that there may still be merit in referring this matter to the IFRS Interpretations Committee (IC) or discussing the matter with the International Accounting Standards Board (IASB) further to seek assistance and guidance on the accounting for TFC clauses under the IFRS. A Board member, via email after the November 2023 meeting, provided feedback from a stakeholder in their jurisdiction, that caution should be taken if the matter is referred to the IFRS IC because of the for-profit focus of the IFRS IC and the potential costs to

NFP entities if a decision that fails to consider adequately the circumstances of the public sector is made by the IFRS IC that changes current practice.<sup>3</sup> Staff considered the potential costs to entities in paragraph 45 of the agenda paper.

- 10 As summarised in November 2023 board papers, the following ITC 50 agenda papers were presented to the Board at the October 2023 meeting:
- (a) [Agenda Paper 3.2.0 Cover Memo Income of Not-for-Profit Entities](#) including overview of ITC 50, comment letters received and outreach activities<sup>4</sup> and academic research;
  - (b) [Agenda Paper 3.2.1 PIR of Income of Not-for-Profit Entities – Overview of the feedback received on ITC 50 by topic](#);
  - (c) [Agenda Paper 3.2.2 PIR Income of Not-for-Profit Entities – Differences between management accounts and statutory accounts and alternative revenue recognition models](#);
  - (d) [Agenda Paper 3.2.3 PIR of Not-for-Profit Entities – General matters for comment](#);
  - (e) [Agenda Paper 3.2.4 ITC 50 submission letters](#) (available on AASB website);
  - (f) [Agenda Paper 3.2.5 ITC 50 survey responses](#); and
  - (g) [Agenda Paper 3.2.6 ITC 50 virtual meeting notes](#) [in supplementary folder for Board only].
- 11 A Board member commented that alignment to IFRS Accounting Standards (i.e. AASB 15) should be maintained as much as possible, in relation to Agenda Paper 3.2.2 and staff's preliminary view on next steps that the Board could consider a project to explore potential amendments to AASB 15 and AASB 1058 leveraging off the latest international standard-setting projects in this area such as IPSAS 47 *Revenue* and IFR4NPO International Financial Reporting for Non Profit Organisations (INPAG). This would include examining their compatibility with the Conceptual Framework applicable to NFP entities (including any anticipated changes from the AASB NFP Conceptual Framework project). Another Board member raised concerns that in Agenda Paper 3.2.2 the Tier 3 Not-for-Profit Private Sector Entities Standard the AASB is currently developing should not be seen as a solution to the issues being experienced by stakeholders applying the requirements of AASB 15 and AASB 1058.

### International developments

- 12 Staff have been monitoring accounting standard international developments that may be relevant to the NFP Income PIR topics and may assist in developing possible responses such as the IASB's consideration of the feedback as part of the PIR of IFRS 15 *Revenue from Contracts with Customers*.<sup>5</sup>

#### *IFRS (AASB) 15 Revenue from Contracts with Customers post-implementation review*

- 13 A summary of the feedback received from all stakeholders who responded to the IASB's IFRS 15 PIR Request for Information was presented to the IASB at its January 2024 meeting. This included:
- (a) [AP6A: Feedback summary – IFRS 15 requirements](#). Paragraphs 53 to 65 of the paper include feedback received on the topic of principal versus agent. Feedback that is relevant to the NFP Income PIR has been summarised in Agenda Paper 8.1 *Principal v agent* of this meeting;

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3 It was noted in the [November 2020 Meeting Minutes](#) that, in accordance with the *AASB Due Process Framework for Setting Standards*, the matter would need to be referred to the IFRS IC if authoritative guidance is required to address diversity in practice, since the issue is relevant to both for-profit and not-for-profit entities.

4 See Appendix C for extract of the overview of comment letters and outreach activities from Agenda Paper 3.2.0 for the October 2023 meeting.

5 INPAG) proposed fund accounting requirements relevant to Topic 3: Differences between management accounts and statutory accounts and alternative revenue recognition models. Details of this were included in the [November 2023 Cover memo](#).

- (b) [AP6B – Applying IFRS 15 with other IFRS Accounting Standards](#). When analysing the feedback received for ITC 50 [Topic 6: Termination for convenience clauses](#) (Agenda Paper 7.4 (November 2023)) and analysing the possible next steps that may be taken by the AASB to address the issues raised, staff outlined that they would monitor the feedback received as part of the IFRS 15 PIR given the issues raised by NFP stakeholders appears to be due to the interaction with other Accounting Standards (i.e. AASB 9 *Financial Instruments* and AASB 132 *Financial Instruments: Presentation*). Staff considered that similar issues may have been raised by international stakeholders. From review of this agenda paper, paragraph 9 includes that a few respondents (mostly standard-setters) said there is diversity in practice because IFRS 15 does not specify whether to classify some of the liabilities arising from IFRS 15 as non-financial (contract) liabilities or as financial liabilities applying IFRS 9 *Financial Instruments* (for example, refund liabilities and prepayments refundable at the customer’s request). Staff consider that, although not the same as the TFC clause issue, developments in this area may be useful if the IASB decide to clarify the interaction between AASB 15 and other standards.<sup>6</sup>

Staff also note that paragraph 46(a)(iii) of AP6A (referred to in 13(a)) also includes that a few standard-setters and a regulator asked the IASB to clarify specific issues, for example, how to consider the customer’s right to terminate the contract in assessing whether the right to payment is enforceable when applying paragraph 35(c) of IFRS 15. Staff will also monitor developments relating to this and assess whether it is relevant to the TFC clause topic; and

- (c) [AP6C – Plan for PIR Phase 2](#). This sets out the IASB’s framework for developing recommendations and deciding on next steps. It also outlines the plan for presenting the topic-specific feedback to the IASB at future meetings. AASB staff will continue monitoring the Agenda Papers presented.
- 14 The IASB have released the February 2024 meeting papers. Information relevant to the ITC 50 topics presented at this meeting have been included in the agenda papers to this meeting.

## Other developments

- 15 HoTARAC and ACAG raised concerns with the volunteer services requirements included in AASB 1058 and HoTARAC recommended disclosure as a solution, as included in paragraphs 32 to 44 of [Agenda Paper 3.2.3 General Matters](#) (October 2023). In paragraph 44 of the paper, staff outlined that the decision-making process will be applied to determine whether any further action would address the feedback on the accounting for volunteer services, including consideration of the prevalence of volunteer services in the public sector and the cost versus benefit of such action. Further, whether another project, for example, Reporting of Service Performance Information could address the feedback effectively.
- 16 Relevant to this, staff note the [Australian Charities Report – 9<sup>th</sup> Edition](#) includes the section ‘Volunteers and employees of charities’ where it outlines that volunteering is a vital part of the charity sector. Information was collected from the Annual Information Statements of charities for the 2021 reporting period. Although not specifically relevant to the public sector volunteer related issues raised by HoTARAC and ACAG, staff will consider this information, as relevant, when considering what further action may be required when applying the PIR decision-making process. In addition, staff noted the Productivity Commission recommendation regarding the improvement of the usefulness of public information sources on volunteering that the AASB commented on in its submission on the Productivity Commission’s draft report.<sup>7</sup>

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6 It is acknowledged that the issues raised by stakeholders related mainly to the interaction between AASB 1058 and AASB 9/AASB 132. Therefore, clarification of the interaction between IFRS 15 and other IFRS accounting standards may only be useful to some extent.

7 See the [AASB submission](#) to the Productivity Commission.

## Next steps

- 17 Staff will consider the feedback received from Board members in paragraphs 4 to 9 at the November 2023 meeting, as well as the feedback received at the October 2023 meeting (paragraph 11) for the topics presented.
- 18 Following the Board’s initial consideration of the feedback on all topics addressed by ITC 50, including at this meeting, staff will develop recommendations and ask the Board to decide on possible next steps at a future meeting applying the PIR decision-making process presented to the Board at the October meeting (see Appendix A and B of the [November 2023 Cover memo](#) for details).
- 19 The table below presents the steps and timeline of this PIR.

Steps	Timeline
Issued Invitation to Comment 50 <i>Post-implementation Review – Income of Not-for-Profit Entities</i>	<b>Completed</b>
<b>Present feedback received, staff analysis and preliminary views:</b>	
<ul style="list-style-type: none"> <li>Topic 3: Differences between management accounts and statutory accounts and alternative revenue recognition models; and</li> <li>AASB General Matters for Comment.</li> </ul>	<b>Completed</b> October 2023 meeting
<ul style="list-style-type: none"> <li>Topic 1: Sufficiently specific criterion;</li> <li>Topic 2: Capital grants; and</li> <li>Topic 6: Termination for convenience clauses.</li> </ul>	<b>Completed</b> November 2023 meeting
<ul style="list-style-type: none"> <li>Topic 4: Principal v agent, including the appropriate recognition of financial liabilities;</li> <li>Topic 5: Grants received in arrears;</li> <li>Topic 7: Accounting for research grants; and</li> <li>Topic 8: Statutory receivables.</li> </ul>	March 2024 meeting
<b>Finalisation of post-implementation review</b>	
Board to consider staff overall recommendations and decide on the next steps	Q2 2024
Draft and publish feedback statement	Q2-Q3 2024

### Question to Board members

**Q1:** Do Board members have any questions or comments on the feedback, staff analysis or preliminary views for this topic?