Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	Presentation and Disclosure in Financial Statements by Superannuation and Not-for-Profit Entities	**Meeting:**	AASB August 2026 (M222)
Topic:	Proposed changes to pre-ballot draft Standard (Agenda Paper 4.1)	**Agenda Item:**	4.3
		Date of the Agenda Paper:	24 August 2026
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		Decision-Making:	High
		Project Status:	Finalising Standard

Objective of this paper

1 The objective of this paper is to assist Board members in considering Agenda Paper 4.1: Pre-ballot draft of AASB 2026-X *Amendments to Australian Accounting Standards – Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation*. Specifically, the Board is asked to:

(a) **consider** feedback received from a stakeholder and two Board members regarding the pre-ballot draft; and

(b) **consider** staff's proposed changes to the pre-ballot draft in response to the feedback.

Introduction

2 Staff received feedback regarding the following:

(a) the definition of "higher education provider" (Section 1 of this agenda paper);

(b) the drafting of the proposed paragraphs Aus47.1 and Aus47.2 to be added to AASB 18 *Presentation and Disclosure in Financial Statements* (Section 2);

(c) the drafting of the proposed paragraph Aus20.1 to be added to AASB 107 *Statement of Cash Flows* (Section 3); and

(d) the drafting of a paragraph in the Preface to the pre-ballot draft (Section 4).

3 Each issue is discussed in a separate section of the paper. Each section also describes staff's recommended changes to the pre-ballot draft in response to the feedback.

4 The Appendix to this paper contains the staff's recommended revised Standard proper section[1] and the relevant pages of the Preface and the Basis for Conclusions for the Board's consideration. Additions are shown in <u>blue text with double underline</u> and deletions are shown in ~~red struck through text~~.

5 The final amending Standard document would be updated as necessary to reflect changes to paragraph numbering in the Table of Contents and references in the Cover Page and Basis for Conclusions.

Section 1: Adding a definition of "higher education provider"

6 A stakeholder noted that Technical and Further Education (TAFE) institutes might be regarded as "higher education providers". The stakeholder is concerned that under the current drafting of the pre-ballot draft, TAFEs would be ineligible for the reliefs from certain requirements that the Board intends to make available to other NFP public sector entities and governments.

7 TAFEs are entities consolidated into whole of government financial statements. They are not "higher education providers" within the scope of the *Higher Education Support Act 2003* and are not subject to the Department of Education Financial Statement Guidelines.

8 To ensure TAFEs would be eligible for the proposed reliefs, staff recommend adding a definition of "higher education provider" that does not include TAFEs to both AASB 18 *Presentation and Disclosure in Financial Statements* and AASB 107. The proposed definition is:

> <u>A body approved under Division 16 of the *Higher Education Support Act 2003*</u>

9 The following table describes staff's recommended changes to the pre-ballot draft reflected in marked-up text in the Appendix.

<table>
<tr><th>Existing paragraph in AP 4.1</th><th>Page number of AP4.1 (and in the combined pack)</th><th>Staff's recommended changes</th></tr>
<tr><td colspan="3">The Standard proper</td></tr>
<tr><td>N/A</td><td>8 (50)</td><td>Add a new paragraph 13 to include the definition of "higher education provider" in Appendix A Defined terms of AASB 18.</td></tr>
<tr><td>16</td><td>10 (52)</td><td>Amend paragraph 6 of AASB 107 to add the subheading "Australian defined terms" and the definition of "higher education provider".</td></tr>
<tr><td>22</td><td>14 (56)</td><td>Amend the proposed paragraph 16(b) of AASB 1054 Australian Additional Disclosures to refer to a higher education provider "as defined in AASB 18".</td></tr>
<tr><td>1</td><td>5 (47)</td><td rowspan="2">Amend existing paragraph 1 and add a new paragraph 25 to amend AASB 2026-2 Amendments to Australian Accounting Standards – Extending the Application of the Conceptual Framework and Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements.

Paragraph 31 of AASB 2026-2 deletes the heading "Australian defined terms" from Appendix A of AASB 18 from 1 July 2029. The staff suggested amendment to AASB 2026-2 removes the deletion of the heading in order to accommodate the new definition beyond 1 July 2029.</td></tr>
<tr><td>N/A</td><td>15 (57)</td></tr>
</table>

1 The Standard proper section of the pre-ballot draft is contained on pages 5–15 of Agenda Paper 4.1 (pages 47–57 of the combined pack).

Existing paragraph in AP 4.1	Page number of AP4.1 (and in the combined pack)	Staff's recommended changes
The Basis for Conclusions		
BC45	22–23 (64–65)	Add a footnote to paragraph BC45 to signpost that the discussion regarding higher education providers is contained in paragraphs BC82–BC92.
BC83	27 (69)	Add references to the *Higher Education Support Act 2003* and the *Australian Research Council Act 2001* to support the observation in paragraph BC83 that Australian higher education providers are required to prepare financial statements in accordance with the financial statement guidelines issued by the Commonwealth Department of Education.
BC84	27 (69)	Add a new subparagraph (e) to paragraph BC84 to state that public sector higher education providers are generally not consolidated into whole of government or General Government Sector (GGS) financial statements.
N/A	27 (69)	Add new paragraphs BC88 and BC89 to explain the inclusion of the definition of "higher education provider" in AASB 18 and AASB 107 and the consequential amendments to AASB 2026-2.
BC94	28–29 (70–71)	Amend subparagraph (b) of paragraph BC94 (now paragraph BC96) to specify higher education provider "as defined in AASB 18" when describing the requirements in AASB 1054 paragraph 16(b).

Question for the Board

Q1: Do Board members agree to add a definition of "higher education provider" to AASB 18 and AASB 107 and make the related consequential amendments? If not, what alternatives do Board members suggest?

Section 2: Proposed paragraphs Aus47.1 and Aus47.2 to be added to AASB 18

10 A Board member raised two issues regarding the proposed paragraphs Aus47.1 and Aus47.2 (on page 7 of the pre-ballot draft or page 49 of the combined pack). For ease of reference, the proposed paragraphs are reproduced below.

Aus47.1 For the purposes of paragraph 46 and notwithstanding paragraph 47, a superannuation entity applying AASB 1056 shall not classify income and expenses into the operating, investing and financing categories in its statement of profit or loss. A superannuation entity shall:

(a) not apply paragraphs 48–66, 69(a), 69(b), 70–74 and B29–B77; and

(b) treat references in this Standard to 'operating expenses' as expenses presented in the statement of profit or loss.

Aus47.2 For the purposes of paragraph 46 and notwithstanding paragraph 47, a not-for-profit public sector entity that is not a higher education provider is not required to classify income and expenses into the operating, investing and financing categories in its statement of profit or loss. An entity that elects to apply this relief:

(a) is not required to apply paragraphs 48–66, 69(a), 69(b), 70–74 and B29–B77; and

(b) shall treat references in this Standard to 'operating expenses' as expenses presented in the statement of profit or loss, in particular for the purposes of paragraphs 75(a)(ii), 79–83 and 85.

11 A Board member commented that:

(a) **Issue 1:** The proposed paragraphs Aus47.1(a) and Aus47.2(a) should not exclude AASB 18.72 as superannuation entities and NFP public sector entities are still required to present a profit or loss total in accordance with AASB 18; and

(b) **Issue 2:** Paragraph Aus47.2(b) should be amended to include AASB 18.84 in the list of paragraphs, as that paragraph also uses the concept of operating expenses that NFP public sector entities applying the relief in paragraph Aus47.2 would need to interpret as expenses presented in the statement of profit or loss.

Issue 1

12 AASB 18.72 states:

> "Profit or loss is the total of income less expenses included in the statement of profit or loss. Accordingly, it comprises all income and expenses classified in **all categories** in the statement of profit or loss (see paragraph 47)." [emphasis added]

13 In preparing the pre-ballot draft Standard, staff considered that requiring superannuation and NFP public sector entities to apply AASB 18.72 might cause confusion. This is because the paragraph refers to income and expenses classified in "all categories", whereas proposed paragraphs Aus47.1 and Aus47.2 provide relief from classifying income and expenses into the operating, investing and financing categories. Additionally, under the current drafting of the pre-ballot draft, superannuation entities and NFP public sector entities would still be required to present a profit or loss total. This requirement arises from:

(a) AASB 18.69(c), which requires the presentation of a profit or loss total (and includes a cross-reference to paragraph 72); and

(b) the definition of "profit or loss" in Appendix A of AASB 18, which is defined as "The total of income less expenses included in the statement of profit or loss."

14 However, after considering the Board member's feedback, staff recommend amending paragraphs Aus47.1(a) and Aus47.2(a) to exclude AASB 18.72 from the list of AASB 18 paragraphs from which superannuation entities and NFP public sector entities are exempt. The reference to "all categories" effectively means all categories presented by an entity in its statement of profit or loss, which superannuation and NFP public sector entities know from paragraphs Aus47.1 and Aus47.2 is not or need not be the same as the categories listed in paragraph 47. Staff therefore recommend amending those paragraphs as follows:

Aus47.1 For the purposes of paragraph 46 and notwithstanding paragraph 47, a superannuation entity applying AASB 1056 shall not classify income and expenses into the operating, investing and financing categories in its statement of profit or loss. A superannuation entity shall:

(a) not apply paragraphs 48–66, 69(a), 69(b), ~~70–74,~~ 70–71, 73–74 and B29–B77; and

(b) …

Aus47.2 For the purposes of paragraph 46 and notwithstanding paragraph 47, a not-for-profit public sector entity that is not a higher education provider is not required to classify income and expenses into the operating, investing and financing categories in its statement of profit or loss. An entity that elects to apply this relief:

(a) is not required to apply paragraphs 48–66, 69(a), 69(b), ~~70–74,~~ 70–71, 73–74 and B29–B77; and

(b) …

Issue 2

15 In relation to Issue 2, AASB 18.84 states:

> Paragraph 41 requires an entity to disaggregate items to provide material information. However, an entity that applies paragraph 83 is exempt from disclosing:
>
> (a) in relation to function line items presented in the operating category of the statement of profit or loss – disaggregated information about the amounts of nature expenses included in each line item, beyond the amounts specified in paragraph 83; and
>
> (b) in relation to nature expenses specifically required by an Australian Accounting Standard to be disclosed in the notes – disaggregated information about the amounts of the expenses included in each function line item presented in the operating category of the statement of profit or loss, beyond the amounts specified in paragraph 83.

16 Staff agree with the Board member that paragraph Aus47.2(b) should be amended to include AASB 18.84 as an example of a requirement for which entities applying the relief in paragraph Aus47.2 should treat references to operating expenses as references to expenses presented in the statement of profit or loss.

17 Staff also observed that AASB 18 uses the phrase "expenses presented in the operating category of the statement of profit or loss" in addition to the term "operating expenses". Accordingly, staff recommend broadening the drafting to refer to "operating expenses (and related terms)" so that the relief applies consistently throughout the Standard. Staff therefore propose amending paragraphs Aus47.1(b) and Aus47.2(b) as follows:

Aus47.1 …

(b) treat references in this Standard to 'operating expenses' (and related terms) as expenses presented in the statement of profit or loss.

Aus47.2 …

(b) shall treat references in this Standard to 'operating expenses' (and related terms) as expenses presented in the statement of profit or loss, in particular for the purposes of paragraphs 75(a)(ii)~~, 79–83 and 85~~ and 79–85.

Questions for the Board

Q2: In respect to Issue 1, do Board members agree with revising the drafting of proposed paragraphs Aus47.1(a) and Aus47.2(a) of AASB 18 as set out in paragraph 14? If not, what alternatives do Board members suggest?

Q3: In respect to Issue 2, do Board members agree with revising the drafting of proposed paragraphs Aus47.1(b) and Aus47.2(b) of AASB 18 as set out in paragraph 17? If not, what alternatives do Board members suggest?

Section 3: Proposed paragraph Aus20.1 to be added to AASB 107

18 A Board member commented that the proposed paragraph Aus20.1 to be added to AASB 107 is difficult to read. The current drafting on page 11 of the pre-ballot draft (page 53 of the combined pack) states:

Aus20.1 Notwithstanding paragraphs 18(b) and 20, and to comply with paragraph 16(b) of AASB 1054 *Australian Additional Disclosures*, a superannuation entity applying AASB 1056, or a not-for-profit public sector entity (that is not a higher education provider) applying the relief set out in paragraph

Aus47.2 of AASB 18 that does not present an operating profit or loss subtotal as defined in AASB 18, shall, when reconciling cash flows from operating activities, adjust the profit or loss total presented in its statement of profit or loss for:

(a) the effects of transactions of a non-cash nature, such as depreciation, provisions, deferred taxes and unrealised foreign currency gains and losses;

(b) any deferrals or accruals of past or future operating cash receipts or payments, including changes during the period in inventories and operating receivables and payables; and

(c) items of income or expense associated with investing or financing cash flows.

19 To improve the readability of the paragraph, staff recommend amending the drafting to read as follows:

Aus20.1 Notwithstanding paragraphs 18(b) and 20, an entity that is:

(a) a superannuation entity applying AASB 1056; or

(b) a not-for-profit public sector entity (that is not a higher education provider) applying the relief set out in paragraph Aus47.2 of AASB 18 that does not present an operating profit or loss subtotal as defined in AASB 18;

shall, when determining the net cash flow from operating activities under the indirect method, adjust the profit or loss total presented in its statement of profit or loss for:

(c) the effects of transactions of a non-cash nature, such as depreciation, provisions, deferred taxes and unrealised foreign currency gains and losses;

(d) any deferrals or accruals of past or future operating cash receipts or payments, including changes during the period in inventories and operating receivables and payables; and

(e) items of income or expense associated with investing or financing cash flows.

20 In the proposed revised drafting, staff have referred to the indirect method and removed the reference to AASB 1054 *Australian Additional Disclosures*. This is because paragraphs 18(b) and 20 of AASB 107 relate to the indirect method, and a reference to AASB 1054 has not been necessary in those paragraphs. The revised reference to net cash flow from operating activities is based on the introductory text in AASB 107.20.

Question for the Board

Q4: Do Board members agree with revising the drafting of proposed paragraph Aus20.1 of AASB 107 as set out in paragraph 19? If not, what alternatives do Board members suggest?

Section 4: Preface to the pre-ballot draft

21 In the Preface to the pre-ballot draft, on page 4 of the document (page 46 of the combined pack), the main requirements of the amending Standard are described under the heading "Main features of this Standard", beginning with the following text:

This Standard amends the following Standards in respect to the preparation of Tier 1 GPFS:

(a) AASB 18 – to specify:

(i) the requirements applicable to superannuation entities and NFP public sector entities in presenting their statement of profit or loss and related disclosures;

(ii) how various principles (and related terms) should be applied in an NFP entity context; and

(iii) NFP public sector entities that are not higher education providers are not required to identify and disclose information about management-defined performance measures;

22 A Board member commented that subparagraph (iii) of the above paragraph is awkwardly expressed in relation to the lead-in text. To improve its readability, staff recommend amending the subparagraph to read as follows:

(iii) that NFP public sector entities, other than higher education providers, are not required to identify and disclose information about management-defined performance measures;

23 If the Board agrees with the revised text shown in paragraph 22, staff will also make the corresponding change to the draft Explanatory Statement (ES) presented as Agenda Paper 4.2, as the draft ES incorporates this text from the Preface.

Question for the Board

Q5: Do Board members agree with the revised wording in the Preface set out in paragraph 22? If not, what alternatives do Board members suggest?

Preface

Standards amended by AASB 2026-X

This Standard makes amendments to the Australian Accounting Standards listed in paragraph 1 of the Standard in respect to the preparation of Tier 1 general purpose financial statements (GPFS), to:

(a) specify how AASB 18 *Presentation and Disclosure in Financial Statements* and related amendments to AASB 107 *Statement of Cash Flows* are to be applied by superannuation entities and not-for-profit (NFP) entities;

(b) make amendments to AASB 1039 *Concise Financial Reports* and AASB 1054 *Australian Additional Disclosures* in respect of the starting point for the operating cash flow reconciliation; and

(c) make related and editorial amendments to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Main features of this Standard

Main requirements

This Standard amends the following Standards in respect to the preparation of Tier 1 GPFS:

(a) AASB 18 – to specify:

(i) the requirements applicable to superannuation entities and NFP public sector entities in presenting their statement of profit or loss and related disclosures;

(ii) how various principles (and related terms) should be applied in an NFP entity context; and

(iii) that NFP public sector entities ~~that are not~~, other than higher education providers, are not required to identify and disclose information about management-defined performance measures;

(b) AASB 107 – to permit superannuation entities, and NFP public sector entities that are not higher education providers, to:

(i) classify dividends received and interest paid and received as operating cash flows; and

(ii) when presenting operating cash flows using the indirect method, to use the profit or loss total presented in the statement of profit or loss as the starting point if the entity does not present an operating profit or loss subtotal in the statement of profit or loss;

(c) AASB 1039 – to align with terminology used in AASB 18 relating to the operating cash flow reconciliation;

(d) AASB 1049 – to reflect amendments to AASB 107 and to align terminology with that used in other Australian Accounting Standards;

(e) AASB 1054 – to specify the starting point for the operating cash flow reconciliation; and

(f) AASB 1056 *Superannuation Entities* – to specify that superannuation entities are required to present their statement of profit or loss and statement of cash flows in the formats required by AASB 1056, rather than the formats set out in AASB 18 and the revised AASB 107 (i.e. the version of AASB 107 incorporating amendments made by AASB 18).

Application date

This Standard applies to annual periods beginning on or after 1 January 2028, except that the amendments to AASB 1039 and AASB 1054 also apply to for-profit entities, other than superannuation entities applying AASB 1056, for annual periods beginning on or after 1 January 2027. Earlier application is permitted.

Accounting Standard AASB 2026-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2026-X *Amendments to Australian Accounting Standards – Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation* under section 334 of the *Corporations Act 2001*.

Dated … [date]

Keith Kendall
Chair – AASB

Accounting Standard AASB 2026-X
Amendments to Australian Accounting Standards – Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation

Objective

1 This Standard amends:

(a) AASB 18 *Presentation and Disclosure in Financial Statements* (June 2024);

(b) AASB 107 *Statement of Cash Flows* (August 2015);

(c) AASB 1039 *Concise Financial Reports* (August 2008);

(d) AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007);

(e) AASB 1054 *Australian Additional Disclosures* (May 2011); ~~and~~

(f) AASB 1056 *Superannuation Entities* (December 2023); and

(g) AASB 2026-2 *Amendments to Australian Accounting Standards – Extending the Application of the* Conceptual Framework *and Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements* (April 2026);

to specify how AASB 18 and AASB 107 are to be applied by superannuation entities that apply AASB 1056 and by not-for-profit entities, and to make related and editorial amendments.

Application

2 **The amendments set out in this Standard apply to entities and financial statements in accordance with the application of the other Standards set out in AASB 1057 *Application of Australian Accounting Standards*.**

3 **This Standard applies to annual periods beginning on or after 1 January 2028, except that the amendments to AASB 1039 and AASB 1054 also apply to for-profit entities, other than superannuation entities applying AASB 1056, to annual periods beginning on or after 1 January 2027. Earlier application is permitted, provided that AASB 18 is also applied to the period.**

4 **This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Ellipses (…) are used to help provide the context within which amendments are made and also to indicate text that is not amended.**

Amendments to AASB 18

5 Paragraph Aus9.1 is added to require not-for-profit entities to refer to the common information needs of users of general purpose financial reports of not-for-profit entities described in the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*) when applying AASB 18.

6 Paragraph Aus11.1 is added to allow a superannuation entity applying AASB 1056, and a not-for-profit public sector entity (that is not a higher education provider) applying the relief in paragraph Aus47.2 of AASB 18, to use the label of a total or subtotal defined in AASB 18 with a meaning that differs from the defined meaning. The label is required to faithfully represent the amounts included in the total or subtotal.

7 Paragraphs Aus23.1 and Aus23.2 are added to require a superannuation entity or a government to present in its primary financial statements all relevant line items required by AASB 1056 or AASB 1049, as applicable.

8 Paragraphs Aus9.1, Aus11.1, Aus23.1 and Aus23.2 are added as follows. Paragraphs 9, 11 and 23 are not amended but are included for reference.

General requirements for financial statements

Objective of financial statements

9 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.

Aus9.1 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 non-financial), 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. Accordingly, where pertinent, references in this Standard to 'assessing prospects for future net cash inflows to the 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 the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

…

A complete set of financial statements

…

11 The statements listed in paragraphs 10(a)–10(d) (and their comparative information) are referred to as the *primary financial statements*. An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'balance sheet' instead of 'statement of financial position'. In addition, although this Standard uses terms such as '*other comprehensive income*', '*profit or loss*' and '*total comprehensive income*', an entity may use other terms to label the totals, subtotals and line items required by this Standard as long as they are labelled in a way that faithfully represents the characteristics of the items, as required by paragraph 43. For example, an entity may use the term 'net income' to label 'profit or loss'.

Aus11.1 A superannuation entity applying AASB 1056 *Superannuation Entities*, or a not-for-profit public sector entity (that is not a *higher education provider*) applying the relief set out in paragraph Aus47.2, may use the label of a total or subtotal defined in this Standard with a meaning that differs from the defined meaning in Appendix A, provided the label faithfully represents the amounts included in the total or subtotal, as required by paragraphs 43 and 74. For example, a not-for-profit public sector entity that does not classify income and expenses into the operating, investing and financing categories in its statement of profit or loss may use the term 'operating profit or loss' as the label for a total or subtotal of income and expenses that does not meet the definition of that term in Appendix A.

…

Information presented in the primary financial statements

…

23 Some Australian Accounting Standards require specific line items to be presented separately in the primary financial statements (for example paragraphs 75 and 103 of this Standard). An

entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. This is the case even if Australian Accounting Standards contain a list of specific required line items or describe the line items as minimum requirements (see paragraph B8).

Aus23.1 Notwithstanding paragraph 23, a superannuation entity applying AASB 1056 shall present all relevant line items required by that Standard in its primary financial statements, including the statement of changes in member benefits.

Aus23.2 Notwithstanding paragraph 23, a government applying AASB 1049 *Whole of Government and General Government Sector Financial Reporting* shall present all relevant line items required by that Standard in its primary financial statements.

9 Paragraph Aus47.1 is added to require a superannuation entity to present its statement of profit or loss in the format specified in AASB 1056 instead of the format specified in AASB 18. Paragraph Aus47.2 is added to provide an accounting policy choice for a not-for-profit public sector entity that is not a higher education provider to elect to not classify income and expenses into the operating, investing and financing categories set out in paragraph 47.

10 Paragraph Aus78.1 is added to require a superannuation entity to classify and present expenses in accordance with AASB 1056 instead of applying the requirements in paragraphs 78 and B80–B82. Paragraph Aus78.2 is added to provide relief for a not-for-profit public sector entity that is not a higher education provider to not consider the matters set out in paragraphs 78 and B80–B82 about determining how to use the characteristics of nature and function to provide the most useful structured summary of expenses.

11 Paragraphs Aus47.1, Aus47.2, Aus78.1 and Aus78.2 are added as follows. Paragraphs 46, 47 and 78 are not amended but are included for reference.

Statement of profit or loss

46 An entity shall include all items of income and expense in a reporting period in the statement of profit or loss unless an Australian Accounting Standard requires or permits otherwise (see paragraphs 88–95 and B86).

Categories in the statement of profit or loss

47 An entity shall classify income and expenses included in the statement of profit or loss in one of five categories (see paragraph B29):

(a) the operating category (see paragraph 52);

(b) the investing category (see paragraphs 53–58);

(c) the financing category (see paragraphs 59–66);

(d) the income taxes category (see paragraph 67); and

(e) the discontinued operations category (see paragraph 68).

Aus47.1 For the purposes of paragraph 46 and notwithstanding paragraph 47, a superannuation entity applying AASB 1056 shall not classify income and expenses into the operating, investing and financing categories in its statement of profit or loss. A superannuation entity shall:

(a) not apply paragraphs 48–66, 69(a), 69(b), 70–71, 73–74 and B29–B77; and

(b) treat references in this Standard to 'operating expenses' (and related terms) as expenses presented in the statement of profit or loss.

Aus47.2 For the purposes of paragraph 46 and notwithstanding paragraph 47, a not-for-profit public sector entity that is not a higher education provider is not required to classify income and expenses into the operating, investing and financing categories in its statement of profit or loss. An entity that elects to apply this relief:

(a) is not required to apply paragraphs 48–66, 69(a), 69(b), 70–71, 73–74 and B29–B77; and

(b) shall treat references in this Standard to 'operating expenses' (and related terms) as expenses presented in the statement of profit or loss, in particular for the purposes of paragraphs 75(a)(ii)~~, 79–83~~ and 79–85.

…

Presentation and disclosure of expenses classified in the operating category

78 In the operating category of the statement of profit or loss, an entity shall classify and present expenses in line items in a way that provides the most useful structured summary of its expenses, using one or both of these characteristics (see paragraphs B80–B85):

(a) the nature of expenses; or

(b) the function of the expenses within the entity.

Aus78.1 Notwithstanding paragraph 78, a superannuation entity applying AASB 1056 classifies and presents expenses in accordance with AASB 1056 and shall not apply paragraphs 78 and B80–B82.

Aus78.2 Notwithstanding paragraph 78, a not-for-profit public sector entity that is not a higher education provider is permitted to classify and present expenses in line items in the statement of profit or loss based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant. An entity that elects to apply this classification and presentation basis is not required to apply paragraphs 78 and B80–B82.

12 Paragraph Aus123.1 is added as follows to provide relief for a not-for-profit public sector entity that is not a higher education provider to not identify and disclose information about management-defined performance measures. Paragraph 122 is not amended but is included for reference.

Notes

…

Disclosure of management-defined performance measures

…

122 An entity shall disclose information about all measures that meet the definition of management-defined performance measures in paragraph 117 in a single note (see paragraphs B132–B133). This note shall include a statement that the management-defined performance measures provide management's view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities.

…

Aus123.1 A not-for-profit public sector entity that is not a higher education provider is not required to identify and disclose information about management-defined performance measures. An entity that elects to apply this relief is not required to apply paragraphs 117–123, 124–125 and B113–B142.

13 A definition of 'higher education provider' is added in Appendix A Defined terms, under the Australian defined terms subheading, as follows:

Australian defined terms

higher education provider	A body approved under Division 16 of the *Higher Education Support Act 2003*.

~~13~~14 Paragraph AusB5.1 is added as follows to Appendix B Application guidance to clarify the users of financial information about a not-for-profit reporting entity. Paragraphs AusB8.1 and AusB8.2 are added as follows to require a superannuation entity or a government to present in its primary financial statements all relevant line items required by AASB 1056 or AASB 1049, as applicable. Paragraphs B5 and B8 are not amended but are included for reference.

General requirements for financial statements

Materiality

…

B5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

AusB5.1 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). In relation to not-for-profit entities, where pertinent, all references in this Standard to 'existing and potential investors, lenders and other creditors' (and related terms) should be read as a reference to this broader range of users.

The roles of the primary financial statements and the notes

…

Information presented in the primary financial statements

B8 Paragraph 23 explains that an entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary, even if the line item is required by Australian Accounting Standards. For example, an entity need not present a line item listed in paragraph 75 if doing so is not necessary for the statement of profit or loss to provide a useful structured summary of income and expenses, or a line item listed in paragraph 103 if doing so is not necessary for the statement of financial position to provide a useful structured summary of assets, liabilities and equity. If an entity does not present the line items listed in paragraphs 75 and 103, it shall disclose the items in the notes if the resulting information is material (see paragraph 42).

AusB8.1 Notwithstanding paragraph B8, consistent with paragraph Aus23.1, a superannuation entity applying AASB 1056 shall present all relevant line items required by that Standard in its primary financial statements, including the statement of changes in member benefits.

AusB8.2 Notwithstanding paragraph B8, consistent with paragraph Aus23.2, a government applying AASB 1049 shall present all relevant line items required by that Standard in its primary financial statements.

~~14~~15 Paragraph AusB80.1 is added as follows to specify how paragraph B80 should be applied in a not-for-profit entity context. Paragraph B80 is not amended but is included for reference.

Statement of profit or loss

…

Presentation and disclosure of expenses classified in the operating category

Use of characteristics of nature and function

B80 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:

(a) what line items provide the most useful information about the main components or drivers of the entity's profitability. For example, for a retail entity a main component or driver of profitability might be cost of sales. Presenting a cost of sales line item might provide relevant information about whether the revenue generated from the sale of goods covers what, for retailers, are mainly direct costs, and by what margin. However, cost of sales is unlikely to provide relevant information about the important components or drivers of profitability if the link between revenue and costs is less direct. For example, for some service entities, information about operating expenses classified by nature, such as employee benefits, might be more relevant to users of financial statements because these expenses are the main drivers of profitability.

(b) what line items most closely represent the way the business is managed and how management reports internally. For example, a manufacturing entity managed on the basis of major functions might classify expenses by function for internal reporting purposes. In contrast, an entity that has a single predominant function, such as providing financing to customers, might determine that line items comprising expenses classified by nature provide the most useful information for internal reporting purposes.

(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.

AusB80.1 For the purposes of paragraph B80(a), consistent with paragraph Aus9.1, a not-for-profit entity applying paragraph 78 shall consider what line items provide the most useful information to users of financial statements about its operations or principal activities.

~~15~~16 Paragraph AusC1.1 in Appendix C Effective date and transition is amended as follows. Paragraph C1 is not amended but is included for reference.

Effective date

C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2027. Earlier application is permitted. If an entity applies this Standard for an earlier period, it shall disclose that fact in the notes.

AusC1.1 Notwithstanding paragraph C1, the following entities shall apply this Standard for annual reporting periods beginning on or after 1 January 2028:

(a) not-for-profit private sector entities;

(b) not-for-profit public sector entities; and

(c) superannuation entities applying AASB 1056~~ *Superannuation Entities*~~.

Earlier application is permitted. If such an entity applies this Standard for an earlier period, it shall disclose that fact in the notes.

Amendments to AASB 107

~~16~~17 Paragraph 6 is amended by the addition of a subheading and a definition of 'higher education provider' as follows. Paragraph Aus6.1 is added as follows to specify the definition of investing activities for superannuation entities and not-for-profit public sector entities that elect to classify the receipt of interest and dividends as operating activities. The definition of investing activities is not amended but is included for reference.

Definitions

6 **The following terms are used in this Standard with the meanings specified:**

…

Investing activities **are the acquisition and disposal of long-term assets and other investments not included in cash equivalents and the receipt of interest and dividends as described in paragraphs 34A–34D.**

…

Australian defined terms

Higher education provider means a body approved under Division 16 of the *Higher Education Support Act 2003*.

Aus6.1 **Notwithstanding the definition of 'investing activities' in paragraph 6, a superannuation entity applying AASB 1056 *Superannuation Entities*, or a not-for-profit public sector entity that is not a higher education provider, is permitted by paragraph Aus34D.1 to classify the receipt of interest and dividends as operating activities rather than investing activities.**

~~17~~18 Paragraph Aus20.1 is added and paragraph Aus20.2 is amended as follows, to specify the starting point for superannuation entities and not-for-profit public sector entities that are not higher education providers to use for the indirect method of reporting operating cash flows. Paragraphs 18 and 20 are not amended but are included for reference.

Reporting cash flows from operating activities

18 **An entity shall report cash flows from operating activities using either:**

(a) **the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or**

(b) **the indirect method, whereby operating profit or loss is adjusted for:**

(i) **the effects of transactions of a non-cash nature;**

(ii) **any deferrals or accruals of past or future operating cash receipts or payments;**

(iii) **income or expenses classified in the operating category in the statement of profit or loss for which the associated cash flows are classified as cash flows from either investing or financing activities; and**

(iv) **cash flows from operating activities for which the associated income or expenses are not classified in the operating category of the statement of profit or loss.**

…

20 Under the indirect method, the net cash flow from operating activities is determined by adjusting operating profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions and unrealised foreign currency gains and losses classified in the operating category;

(c) income or expenses classified in the operating category in the statement of profit or loss for which the cash effects are investing or financing cash flows; and

(d) operating cash flows, such as income tax (in accordance with paragraph 35), for which the corresponding income or expenses are not classified in the operating category in the statement of profit or loss.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses classified in the operating category in the statement of profit or loss, the changes during the period in inventories and operating receivables and payables and any other operating cash flows for which the corresponding income or expenses are not classified in the operating category.

…

Aus20.1 Notwithstanding paragraphs 18(b) and 20, ~~and to comply with paragraph 16(b) of AASB 1054 *Australian Additional Disclosures*,~~ an entity that is:

(a) a superannuation entity applying AASB~~-~~ 1056~~,~~; or

(b) a not-for-profit public sector entity (that is not a higher education provider) applying the relief set out in paragraph Aus47.2 of AASB 18 that does not present an operating profit or loss subtotal as defined in AASB 18~~.~~;

shall, when ~~reconciling~~determining the net cash ~~flows~~flow from operating activities under the indirect method, adjust the profit or loss total presented in its statement of profit or loss for:

(~~a~~c) the effects of transactions of a non-cash nature, such as depreciation, provisions, deferred taxes and unrealised foreign currency gains and losses;

(~~b~~d) any deferrals or accruals of past or future operating cash receipts or payments, including changes during the period in inventories and operating receivables and payables; and

(~~c~~e) items of income or expense associated with investing or financing cash flows.

Aus20.2 Notwithstanding paragraph Aus20.1, not-for-profit ~~Not-for-profit~~ entities that use the direct method and that highlight the net cost of services in their statement of ~~comprehensive income for the reporting period~~ profit or loss shall disclose in the complete set of financial statements a reconciliation of cash flows ~~arising~~ from operating activities to net cost of services as reported in the statement of ~~comprehensive income~~ profit or loss.

~~18~~19 Paragraph Aus34D.1 is added as follows to permit superannuation entities and not-for-profit public sector entities that are not higher education providers to classify interest paid and received and dividends received as cash flows from operating activities. Paragraphs 31–34D are not amended but are included for reference.

Interest and dividends

31 Cash flows from interest and dividends received and paid shall each be presented separately. Each shall be classified in a consistent manner from period to period applying paragraphs 32, 33A and 34A–34D.

32 The total amount of interest paid during a period is included in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with AASB 123 *Borrowing Costs*.

33 [Deleted]

33A An entity shall classify dividends paid as cash flows from financing activities.

34 [Deleted]

34A An entity, other than those entities described in paragraph 34B, shall classify:

(a) interest paid (as described in paragraph 32) as cash flows from financing activities.

(b) interest and dividends received as cash flows from investing activities.

34B An entity that invests in assets or provides financing to customers as a main business activity (as determined applying paragraphs B30–B41 of AASB 18) shall determine how to classify dividends received, interest received and interest paid in the statement of cash flows by referring to how – applying AASB 18 – it classifies dividend income, interest income and interest expenses in the statement of profit or loss. An entity shall classify the total of each of these cash flows in a single category in the statement of cash flows (that is, either as operating, investing or financing activities).

34C In applying paragraph 34B, if an entity classifies the total of each of dividend income, interest income and interest expenses in a single category of the statement of profit or loss, the entity shall classify the total of each of dividends received, interest received and interest paid as cash flows arising from the associated activity in the statement of cash flows. For example, if an entity classifies all its interest expenses in the financing category of the statement of profit or loss, the entity would classify all its interest paid as cash flows from financing activities.

34D In applying AASB 18, an entity may be required to classify each of dividend income, interest income and interest expenses in more than one category of the statement of profit or loss. In such a case, in applying paragraph 34B the entity shall make an accounting policy choice to classify the related cash flows in one of the associated activities in the statement of cash flows. For example, if an entity classifies interest expenses in the operating category and the financing category of the statement of profit or loss, the entity would classify all its interest paid in accordance with its accounting policy as either cash flows from operating activities or cash flows from financing activities.

Aus34D.1 Notwithstanding paragraphs 34A–34D, an entity that is:

(a) a superannuation entity applying AASB 1056; or

(b) a not-for-profit public sector entity that is not a higher education provider;

is permitted to classify interest paid and received and dividends received as cash flows from operating activities.

~~19~~20 The preamble text of the Illustrative examples accompanying AASB 107 is amended as follows to specify that the illustrative examples are relevant to entities classifying income and expenses into the operating, investing and financing categories as set out in AASB 18.

Illustrative examples

These illustrative examples accompany, but are not part of, AASB 107.

The examples are relevant to entities classifying income and expenses into the operating, investing and financing categories as set out in AASB 18.

Amendments to AASB 1039

~~20~~21 Paragraph 21 is amended as follows to be consistent with the amendments made to AASB 1054 regarding the starting point to use in preparing the operating cash flow reconciliation.

Financial Statements

…

21 All the notes to the financial statements required by other Accounting Standards are not required in the concise financial report. For example, this Standard does not require an entity that uses the direct method in the statement of cash flows to provide a reconciliation of cash flows arising from operating activities to ~~profit or loss~~ 'operating profit or loss' or 'profit or loss', as the case may be. However, information required in some notes by other Accounting Standards is required when specified in this Standard.

Amendments to AASB 1049

~~21~~22 Paragraph 14(f) is amended as follows to delete redundant text relating to dividends paid and instead to explain the effect of AASB 1049 paragraph 13 on the application of the accounting policy choice provided in paragraph Aus34D.1 in AASB 107 regarding the classification of cash flows from interest paid and received and dividends received. Paragraphs 14(g) and 31(a)(ii) are amended as follows to align with terminology used in other Australian Accounting Standards.

Compliance with Australian Accounting Standards and the ABS GFS Manual

…

14 Examples of particular optional treatments in Australian Accounting Standards that paragraph 13 of this Standard has the effect of limiting, include:

…

(f) ~~dividends paid by entities within the PNFC sector and PFC sector that may be classified by those sectors as a financing cash flow or as a component of cash flows from operating activities under AASB 107. Because classification as a financing cash flow is consistent with the format of the cash flow statement under the ABS GFS Manual, paragraph 13 of this Standard has the effect of requiring classification of dividends paid as a financing cash flow~~ under AASB 107, a not-for-profit public sector entity that is not a higher education provider is permitted to classify interest paid as financing or operating cash flows and interest and dividends received as investing or operating cash flows. Because classification as an operating cash flow is consistent with the format of the cash flow statement under the ABS GFS Manual, paragraph 13 of this Standard has the effect of requiring classification of these items as operating cash flows; and

(g) government grants accounted for by entities within the PNFC sector and PFC sector in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. In accordance with paragraphs 52(b)(i) and 53 of this Standard, information about the PNFC sector and PFC sector disclosed for the whole of government is prepared in a manner consistent with the accounting policies adopted in the whole of government statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows. Therefore, the options in AASB 120 are not adopted and instead the principles in AASB 1058 *Income of Not-for-Profit Entities* ~~AASB 1004 *Contributions*~~ are applied.

…

Whole of government and GGS statements of comprehensive income

…

31 The following examples illustrate how the approach in paragraphs 30 and 30A applies to particular items:

(a) in both a whole of government and GGS financial reporting context, where GAAP and GFS both recognise the item in the reporting period:

…

(ii) changes in the fair value of financial instruments measured at fair value, that do not arise from undistributed interest or dividends, are classified as other economic flows, irrespective of whether the instruments are classified as 'fair value through profit or loss' or 'fair value through other comprehensive income' ~~'available-for-sale'~~;

Amendments to AASB 1054

~~22~~23 Paragraph 16 and its heading are amended as follows to modify the starting point to use in preparing the operating cash flow reconciliation.

Reconciliation of Net Operating Cash Flow ~~to Profit (Loss)~~

16 When an entity uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities ~~to profit (loss)~~. The reconciliation shall be to:

(a) the operating profit or loss subtotal presented in the statement of profit or loss in accordance with paragraph 69(a) of AASB 18; or

(b) the profit or loss total presented in the statement of profit or loss, if the entity is a superannuation entity applying AASB 1056 *Superannuation Entities*, or a not-for-profit public sector entity (that is not a higher education provider as defined in AASB 18) applying the relief set out in paragraph Aus47.2 of AASB 18 that does not present an operating profit or loss subtotal as defined in AASB 18.

Amendments to AASB 1056

~~23~~24 Paragraphs 10A and 12A are added as follows to specify how the requirements set out in AASB 18 are applied by a superannuation entity. Paragraphs 9–12 are not amended but are included for reference.

Presentation of financial statements

…

Income statement

9 The income statement shall include line items that present, when applicable, the following amounts for the period:

(a) income, in aggregate or subclassified, subject to paragraph 10;

(b) expenses, in aggregate or subclassified, subject to paragraph 10;

(c) net benefits allocated to *defined contribution member* accounts;

(d) the net change in *defined benefit member* liabilities;

(e) net result, subject to paragraph 10; and

(f) income tax expense or benefit attributable to net result.

10 When a superannuation entity acts in the capacity of an insurer in respect of defined contribution members, the income statement or notes to the financial statements shall separately present insurance premiums, claim expenses, reinsurance expenses, reinsurance recoveries, and the net result from insurance activities.

10A As required by paragraph Aus47.1 of AASB 18 *Presentation and Disclosure in Financial Statements*, a superannuation entity shall not classify income and expenses into the operating, investing and financing categories set out in paragraph 47 of AASB 18 nor present the subtotals set out in paragraphs 69(a) and 69(b) of AASB 18.

Statement of changes in member benefits

11 A statement of changes in member benefits shall present opening and closing balances for member liabilities and, when applicable, include the following line items for the period:

(a) employer contributions;

(b) member contributions;

(c) taxes on contributions;

(d) benefits transferred into the entity from other superannuation entities;

(e) benefits to members or their beneficiaries;

(f) insurance premiums charged to defined contribution member accounts;

(g) net benefits allocated to defined contribution member accounts;

(h) net changes to defined benefit member accrued benefits; and

(i) amounts allocated to members from reserves.

12 Current tax and deferred tax shall be charged or credited directly to member liabilities and presented in the statement of changes in member benefits when the tax relates to items that are credited or charged, in the same or a different period, directly to member liabilities.

12A A superannuation entity shall treat its statement of changes in member benefits (including its comparative information) as a primary financial statement for the purposes of applying AASB 18, including the requirements for comparative information, labelling, and aggregation and disaggregation.

Amendments to AASB 2026-2

25 Paragraph 31 is amended as follows to reinstate the “Australian defined terms” subheading in Appendix A of AASB 18.

Amendments to AASB 18 *Presentation and Disclosure in Financial Statements*

…

31 In Appendix A, the defined terms 'government', 'government department' and 'local government' and the related ~~heading "Australian defined terms" and~~ preamble are deleted.

Commencement of the legislative instrument

~~24~~26 For legal purposes, this legislative instrument commences as follows:

(a) this paragraph commences on 31 December 2026;

(b) paragraphs 1(c), 1(e) and 2–4, the amendments to AASB 1039 in paragraph ~~20~~21 and the amendments to AASB 1054 in paragraph ~~22~~23 commence on:

(i) 31 December 2026 – in relation to for-profit entities (other than superannuation entities applying AASB 1056); and

(ii) 31 December 2027 – in relation to not-for-profit entities and superannuation entities applying AASB 1056; and

(c) all other paragraphs commence on 31 December 2027.

Application guidance relevant to all NFP entities

BC39 When developing ED 338, the AASB observed that some principles in AASB 18 are expressed using for-profit terminology and may require additional guidance for application by NFP entities. Accordingly, ED 338 proposed adding the following paragraphs to AASB 18:

(a) paragraphs Aus9.1 and AusB5.1 – to require an NFP entity to consider the common information needs of users of GPFS of NFP entities described in the *Conceptual Framework for Financial Reporting* (Conceptual Framework). At its July 2025 meeting, the AASB decided that NFP entities should apply that Conceptual Framework in preparing GPFS and subsequently finalised related amendments in AASB 2026-2 *Amendments to Australian Accounting Standards – Extending the Application of the* Conceptual Framework *and Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*; and

(b) paragraph AusB80.1 – to require an NFP entity applying AASB 18.78 to consider the line items that provide the most useful information to users of financial statements about the entity's "operations or principal activities", which is broader than considering "the main components or drivers of the entity's profitability" required by AASB 18.B80(a), after considering stakeholder comments that users of NFP entity financial statements might focus more on the entity's operations or principal activities rather than the entity's profitability.

BC40 Feedback received through comment letters and roundtables was generally supportive of the proposed paragraphs. Most stakeholders considered that they would improve the relevance of AASB 18 for NFP entities by:

(a) aligning the user-needs objective with the Conceptual Framework;

(b) focusing on information relevant to decision-making and resource allocation in the NFP sector, rather than solely on future net cash inflows;

(c) reflecting users' focus on service delivery, sustainability and stewardship; and

(d) improving comparability between NFP entities and for-profit entities operating in the same sectors.

BC41 A minority of roundtable participants considered amendments to AASB 18 unnecessary because the users identified in AASB 18.B5 are already appropriate and, particularly in the higher education sector, cash flow information remains critical. Some also expressed concern that paragraph AusB5.1 could imply broader disclosure requirements. The AASB concluded that the proposed NFP-specific paragraphs are relevant and do not prevent entities from applying AASB 18.9 and B5. Rather, entities need to consider their operations and identify their users' information needs in that context when determining the information to be disclosed in GPFS.

BC42 Some stakeholders raised drafting concerns about paragraphs Aus9.1 and AusB5.1, including whether paragraph Aus9.1 could imply that NFP users are unconcerned with financial returns and whether references to "investors" should be replaced with "members" in paragraph AusB5.1. The AASB noted the wording is consistent with the existing Framework, *Framework for the Preparation and Presentation of Financial Statements*, and that similar concerns were not raised during the project that led to AASB 2026-2. Accordingly, the AASB decided to add paragraphs Aus9.1 and AusB5.1 as proposed in ED 338.

NFP public sector entities that are not higher education providers

BC43 The key issue raised by public sector stakeholders was whether the presentation and cash flow classification requirements introduced by AASB 18 and the revised AASB 107 would provide information more useful than existing public sector reporting formats. The AASB concluded that limited, targeted departures from those requirements are justified for NFP public sector entities that are not higher education providers.

BC44 The AASB noted the International Public Sector Accounting Standards Board (IPSASB) is undertaking a project on Presentation of Financial Statements, including consideration of IFRS 18 in an NFP public sector context. Given the likely timeframe of that project, the AASB decided not to delay its own work on the presentation of financial statements by Australian NFP public sector entities. However, the AASB intends to consider the outcomes of the IPSASB's project as part of its Public Sector Financial Reporting Framework project.

BC45 Based on feedback received from eight public sector stakeholders during the targeted outreach, the AASB concluded that departures from AASB 18 and the revised AASB 107 are justifiable for NFP public sector entities that are not higher education providers under the *AASB Not-for-Profit Entity Standard-Setting*

Framework (July 2021).[2] Accordingly, in addition to the NFP guidance described in paragraph BC39, ED 338 proposed accounting policy choices providing relief from certain presentation, expense classification, cash flow and MPM requirements for those entities.

BC46 The AASB received seven comment letters on these proposals and additional feedback through a February 2026 roundtable. Most stakeholders supported the proposals, subject to some refinements. The following paragraphs summarise the proposals, stakeholder feedback and the AASB's decisions by topic.

Statement of profit or loss presentation – paragraph Aus47.2 in AASB 18

BC47 Treasury or Finance Departments prescribe GPFS presentation formats for NFP public sector entities that are not higher education providers within their jurisdictions, while Offices of Local Government prescribe formats for local government entities. In addition, AASB 1049 specifies presentation and disclosure requirements for whole of government and GGS financial statements.

BC48 Feedback received through the 2025 targeted outreach and in response to ED 338 indicated that most public sector stakeholders considered the costs of applying the AASB 18 income statement classification and presentation requirements to NFP public sector entities that are not higher education providers would outweigh any benefits. In particular, stakeholders observed that:

(a) existing presentation formats prescribed by relevant authorities and AASB 1049 are well understood by users of public sector GPFS and budget papers, and support budget management, financial sustainability assessments and public accountability. In particular, some entities present a 'net cost of services' subtotal that is used to monitor recurrent expenditure against budget limits;

(b) distinguishing day-to-day operating activities from capital-related activities provides more useful information to users than classifying income and expenses into the operating, investing and financing categories described in AASB 18. Accordingly, many entities present an operating result that excludes certain non-cash items, capital grants and restricted funding that are not directly related to underlying operations;

(c) investing and financing categories have limited relevance for many NFP public sector entities because they primarily deliver goods and services funded through appropriations, taxes or rates. Consequently, removing items such as interest expenses and employee benefit liability expenses from operating activities is of limited importance to users;

(d) debt financing activities are generally managed centrally by governments, with funding provided through appropriations. As a result, the full cost of borrowing is often not reflected within an individual entity's GPFS;

(e) requiring entities to assess their main business activities and classify income and expenses into AASB 18 categories may reduce clarity, misrepresent operating performance and create challenges when administrative restructures or machinery-of-government changes occur; and

(f) implementing the AASB 18 requirements could require significant changes to charts of accounts, report mappings and systems without corresponding benefits to users.

BC49 Based on this feedback, the AASB observed that stakeholders provided no evidence that the income statement categories introduced by AASB 18 would provide more useful information than existing public sector reporting formats. The AASB therefore concluded that a departure from these requirements is justifiable under the *AASB Not-for-Profit Entity Standard-Setting Framework*. Accordingly, the AASB added paragraph Aus47.2 to AASB 18 to provide an accounting policy choice for NFP public sector entities that are not higher education providers not to apply AASB 18 requirements relating to the assessment of main business activities, the classification of income and expenses, and the presentation of related subtotals.

BC50 In respect of whole of government and GGS financial statements, the AASB decided to maintain the presentation formats required by AASB 1049. Feedback from the FRC's independent PIR of AASB 1049 indicated strong support for retaining AASB 1049 in its current form (see paragraphs ~~BC96~~BC98–~~BC108~~BC110 for information about the PIR).

Presentation of expenses – paragraph Aus78.2 in AASB 18

BC51 AASB 18.78 requires an entity to classify and present operating-category expenses in line items in a way that provides the most useful structured summary of its expenses, considering the matters in AASB 18.B80, using one or both of the following characteristics: the nature of the expenses, and the function of the expenses within

[2] Paragraphs BC82–BC92 summarise the AASB's considerations regarding higher education providers.

added paragraphs Aus23.2 and AusB8.2 to AASB 18 to require a government to present all the relevant line items required by AASB 1049 in its primary financial statements.

For-profit public sector entities

BC78 In discussing the application of the revised AASB 107 requirements for dividends and interest cash flows, public sector stakeholders participating in the 2025 targeted outreach emphasised the importance of consistent cash flow classifications across all public sector entities within a jurisdiction, including for-profit entities, to support comparability of GPFS and facilitate whole of government consolidation.

BC79 Consistent with the *AASB For-Profit Entity Standard-Setting Framework* (July 2021), the AASB's starting point in setting requirements is to apply IFRS Accounting Standards and transaction neutrality. Accordingly, the AASB generally does not modify Australian Accounting Standards for for-profit public sector entities. The AASB observed that feedback received through targeted outreach did not provide sufficient justification for departing from the revised AASB 107 for these entities.

BC80 The AASB received seven comment letters that addressed for-profit public sector entities in response to ED 338. Most respondents considered that the cash flow statements of for-profit public sector entities should remain aligned with those of for-profit private sector entities. Stakeholders considered that:

(a) there is no strong conceptual basis for different requirements, and alignment supports competitive neutrality;

(b) consistent classification between the income statement and the cash flow statement would improve user understanding and better meet user needs across the for-profit sector; and

(c) any consolidation impacts would be limited because existing government consolidation systems already manage public sector financial information effectively, the necessary information is generally available, relatively few for-profit entities are consolidated within the whole of government, and many transactions are eliminated on consolidation.

BC81 Stakeholders therefore considered that the benefits of comparability with for-profit private sector entities outweigh any additional consolidation, implementation or audit costs. Accordingly, the AASB decided that no modifications to AASB 18 or the revised AASB 107 are necessary for for-profit public sector entities.

NFP private sector entities and higher education providers

BC82 During the 2025 targeted outreach, the AASB received limited feedback regarding the application of AASB 18 and the revised AASB 107 by NFP private sector entities and higher education providers. The feedback indicated that, although implementation costs would arise, entities preparing Tier 1 GPFS are generally larger entities or entities with a high degree of public accountability. Accordingly, stakeholders generally considered that the benefits of applying AASB 18 would outweigh the associated implementation costs. On that basis, when developing ED 338, the AASB did not identify sufficient justification to propose modifications to AASB 18 or the revised AASB 107 for these entities, other than the NFP-specific guidance described in paragraph BC39 in response to the use of for-profit terminology in AASB 18.

BC83 The AASB also observed that ~~most~~, in accordance with the *Higher Education Support Act 2003* and the *Australian Research Council Act 2001*, Australian higher education providers are required, as a condition of receiving financial assistance from the Australian Government, to prepare ~~financial statements in accordance with~~ GPFS in the format prescribed by the financial statement guidelines issued by the Commonwealth Department of Education. Those guidelines prescribe certain presentation requirements and require dividends received and interest paid and received to be classified as operating cash flows. Although one stakeholder suggested permitting higher education providers to continue applying those classifications, the AASB concluded that stakeholders had not provided sufficient justification to modify AASB 18 or the revised AASB 107 for those entities.

BC84 The AASB noted that the circumstances of public sector higher education providers differ from those of other NFP public sector entities. In particular, stakeholders indicated that:

(a) applying AASB 18 would improve transparency and comparability, with the structured presentation requirements and clearer disaggregation of operating, investing and financing activities expected to provide more useful information, particularly for entities with diverse revenue streams;

(b) it is important that the GPFS of public sector higher education providers remain comparable with those of higher education providers in the private sector and internationally;

(c) most higher education providers have the resources and capability to implement AASB 18, and implementation challenges would be more appropriately addressed through guidance rather than exemptions; ~~and~~

(d) the Commonwealth Department of Education would be able to update its financial statement guidelines to reflect the requirements of AASB 18 and the revised AASB 107~~.~~; and

(e) public sector higher education providers are generally not consolidated into whole of government or GGS financial statements. Consequently, the concerns raised by other NFP public sector entities regarding alignment with Government Finance Statistics requirements and the preparation of whole of government and GGS financial statements are generally not relevant to such higher education providers.

BC85 In response to ED 338, the AASB received feedback through nine comment letters, two virtual roundtables and targeted interviews with representatives of the Commonwealth Department of Education and the Fair Work Commission. Most stakeholders agreed that NFP private sector entities and higher education providers should apply AASB 18 and the revised AASB 107 without relief, including the requirements to classify income and expenses into the operating, investing and financing categories and to apply the MPM disclosure requirements.

BC86 Although a minority of stakeholders questioned the costs and relevance of the MPM disclosure requirements for these entities, stakeholders generally considered that the disclosures would improve transparency, comparability and discipline over performance measures commonly reported outside GPFS. Apart from seeking clarification regarding the income and expense categorisation requirements (see paragraphs ~~BC88~~BC90–~~BC90~~BC92), stakeholders were generally supportive of applying AASB 18 to these entities.

BC87 Accordingly, the AASB concluded that the evidence received did not support providing relief from AASB 18 or the revised AASB 107 for NFP private sector entities or higher education providers.

BC88 The AASB included a definition of "higher education provider" in Appendix A of AASB 18 and in paragraph 6 of AASB 107 to clarify that the reliefs from certain AASB 18 and AASB 107 requirements available to NFP public sector entities (described in paragraphs BC43–BC77) do not apply to higher education providers that are bodies approved under Division 16 of the *Higher Education Support Act 2003*. Public sector higher education providers outside the scope of that Act, such as Technical and Further Education (TAFE) institutes, are not treated as higher education providers for the purposes of AASB 18 and AASB 107 and therefore are eligible to apply those reliefs.

BC89 The AASB also made consequential amendments to AASB 2026-2 *Amendments to Australian Accounting Standards – Extending the Application of the* Conceptual Framework *and Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*. Paragraph 31 of AASB 2026-2 deletes the heading "Australian defined terms" from Appendix A of AASB 18 from 1 July 2029. Because this Standard adds an Australian definition of "higher education provider" to Appendix A of AASB 18, the consequential amendment removes that deletion so that the heading remains in place beyond 1 July 2029.

Further standard-setting work on income categorisation

~~BC88~~BC90 During the ED 338 outreach, some stakeholders questioned how income recognised under AASB 1058 *Income of Not-for-Profit Entities*, including capital grants and donated assets, should be categorised under AASB 18. Stakeholders noted that ED 338 had not specifically addressed the interaction between AASB 1058 and AASB 18 and suggested that additional guidance may be required.

~~BC89~~BC91 To obtain further evidence, the AASB undertook additional consultation in March and April 2026, including a consultation document, online survey, virtual roundtable and targeted interviews. Feedback indicated uncertainty regarding:

(a) the categorisation of income arising from the initial recognition of donated assets;

(b) the categorisation of income arising from the unwinding of liabilities relating to capital grants; and

(c) how NFP entities should assess whether investing in assets or providing financing to customers constitutes a specified main business activity under AASB 18.

~~BC90~~BC92 Stakeholders highlighted a range of fact patterns, including entities that provide micro-finance loans, hold investment portfolios to fund grants, hold investment properties used for social housing, or undertake substantial investing or financing activities alongside their charitable objectives. Having considered this feedback, the AASB concluded that further standard-setting work is justified under the *AASB Not-for-Profit Entity Standard-Setting Framework*. Accordingly, at its May 2026 meeting, the AASB decided to develop a further Exposure Draft to consider:

(a) additional guidance on applying the income and expense categorisation requirements in AASB 18 to NFP private sector entities and higher education providers; and

(b) whether, and if so in what circumstances, those entities might be regarded as investing in assets or providing financing to customers as a specified main business activity.

Starting point to use for operating cash flow reconciliation and labelling of subtotals

~~BC91~~BC93 AASB 18 amended AASB 107.18(b) and 20 to require an entity applying the indirect method to reconcile cash flows from operating activities starting with the 'operating profit or loss' subtotal, rather than the 'profit or loss' total, presented in the statement of profit or loss. ED 338 proposed amendments to the operating cash flow reconciliation reference in AASB 1039.21 and requirements in AASB 1054.16 to reflect the amendments made to AASB 107 by AASB 18.

~~BC92~~BC94 ED 338 also proposed amendments to AASB 107 and AASB 1054 that would require superannuation entities, and NFP public sector entities that did not present an operating profit or loss subtotal, to start the reconciliation with the profit or loss total.

~~BC93~~BC95 Most ED 338 respondents who commented on this topic supported the proposals. Accordingly, the AASB added paragraph Aus20.1 to AASB 107 and amended paragraph Aus20.2 of AASB 107, AASB 1039.21 and AASB 1054.16.

~~BC94~~BC96 The amendments mean that, when preparing the reconciliation of operating cash flows, an entity is required to adjust:

(a) the operating profit or loss subtotal presented in the statement of profit or loss in accordance with paragraph 69(a) of AASB 18; or

(b) the profit or loss total presented in the statement of profit or loss, if the entity is a superannuation entity, or an NFP public sector entity (that is not a higher education provider as defined in AASB 18) applying the relief set out in paragraph Aus47.2 of AASB 18 that does not present an operating profit or loss subtotal as defined in AASB 18.

Presenting subtotals that do not meet the definitions in AASB 18 – paragraph Aus11.1 in AASB 18

~~BC95~~BC97 A related presentation issue arose during the AASB's consideration of the operating cash flow reconciliation amendments. One stakeholder questioned whether an entity within the scope of AASB 1054.16(b) should be permitted to present an 'operating profit or loss' (or similarly labelled) subtotal when that subtotal does not correspond to the definition of operating profit or loss in AASB 18. To address this concern, the AASB added paragraph Aus11.1 to AASB 18 to permit superannuation entities and NFP public sector entities (that are not higher education providers) applying the relief in paragraph Aus47.2 to use the label of a total or subtotal defined in AASB 18 with a meaning that differs from its defined meaning, provided the label faithfully represents the amounts included in the total or subtotal.

The FRC's independent PIR of AASB 1049

~~BC96~~BC98 In December 2002, the FRC issued a strategic direction to the AASB to "pursue as an urgent priority the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting. The objective should be to achieve an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements" (FRC Bulletin 2002/5, 18 December 2002, as confirmed by FRC Bulletin 2003/1, 11 April 2003). As a result, AASB 1049 was developed, first in relation to General Government Sector financial statements (September 2006) and then extended to whole of government financial statements in October 2007 (effective for annual periods beginning on or after 1 July 2008).

~~BC97~~BC99 In December 2021, the FRC completed an independent PIR of AASB 1049 and AASB 1055 *Budgetary Reporting* (in respect of whole of government and GGS financial reporting). The PIR assessed the extent to which the Standards had achieved the FRC's objective, their costs and benefits, and the continuing need for a specific Standard to harmonise GFS and GAAP reporting.