Centre for Public Value
UWA Business School

THE UNIVERSITY OF WESTERN AUSTRALIA

Your responsibilities in financial reporting – Opportunities for positive change

Webinar on the Australian Accounting Standards Board's discussion paper: "Development of Simplified Accounting Requirements (Tier 2 Not-for-profit Private Sector Entities)"

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Chat Questions & Answers

Q1) Is the ACNC looking at making any changes relevant to what the ACNC deems 'large charities'?

Answer:

This discussion paper is only focused on disseminating ideas and getting feedback in relation to the accounting standards and smaller NFPs (those turning over between $500,000 and $3m). There is a wider program of research being undertaken by the AASB which also examines other NFP issues, including medium and larger NFPs. The link for this program is here and it is worth reviewing the extensive nature of the work being done.

https://aasb.gov.au/current-projects/work-program/

There may also be opportunities for people to provide feedback to the AASB in relation to these wider projects.

Q2) If they are considering not to report leases 'in kind'..is it likely to carry over to not reporting 'gifts in kind'? (e.g. free rent or other 'donated' expense where the NFP has no related cash outgoing?

Answer:

This is not dealt with and may be an area where respondents may wish to comment. However, remember too that the issue is whether Users find the information of importance and whether it is necessary to give a fuller picture. For instance, to what extent doe the organisation depend upon donated goods to achieve its mission? Will a reduction in donated goods—say, due to a down turn in the economy—impact the organisation's sustainability?

Q3) Looks like a little bit of common sense in the discussion paper. However, as it doesn't affect medium or large NFPs which have the same issues in relation to leases and income recognition.

Answer:

An important consideration is whether some of the ideas/issues dealt with in the discussion paper are relevant to medium and large organisations or Tier 1 and Tier 2 reporters. Please consider these points in responding to the discussion paper as there are questions that relate to broader issues and under which you could put across opinions relating to entities' reports that do not fall into the Tier 3 or small not-for-profits category. Additionally, you can add points that you think are important as well as answer the questions raised.

Q4) Proposed changes to income recognition:

1) **Would this mean income received in advance is recognised as an Asset rather than a Liability?**
2) **Would this mean an end to recognition of 'income received in advance' that's then reclassified after an event has occurred?**

Answer:

1) No, income received in advance is always a liability because the entity has yet to earn it. The proposed changes to income recognition relate to a situation where income is received for outcomes to be provided and which the funder and the NFP know that expense need to be incurred in order for the outcomes to be achieved. The current way of dealing with this is to categorise the income as income in advance (liability) until the outcomes that have been purchased have been achieved. However, this creates problems in terms of assessing the sustainability of the NFP as the lack of income recognition results in a reduced financial result even if the income cannot be clawed back by the funder in the instance that the outcomes are not achieved. Therefore, recognising the income when the expenditure that can be expected to lead to the outcomes sought potentially allows for a more balanced view of the financial performance of the entity.

2) No – if the income has not been earned or if concomitant expenditure has not been incurred in pursuit of the outcomes for which the income has been provided, it is still income in advance.