Australian Government

Australian Charities and Not-for-profits Commission

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Australian Accounting Standards Board

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ACNC submission – ED 318 Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases

The Australian Charities and Not-for-profits Commission (**ACNC**) welcomes the Australian Accounting Standards Board's (**AASB**) Invitation to Comment on **ED 318**.

About the ACNC and the charity sector

The ACNC is the federal charities regulator with the following statutory objects – to:

a. maintain, protect and enhance public trust and confidence in the Australian not-for-profit sector;
b. support and sustain a robust, vibrant, independent and innovative Australian not-for-profit sector; and
c. promote the reduction of unnecessary regulatory obligations on the Australian not-for-profit sector.

The ACNC regulates more than 59,000 charities in Australia which are a sub-sector of the Not-for-profit (NFP) sector. The ACNC is careful to balance each of these objects and has considered them in responding to ED 318. It is with regard to the impact of ED 318 on the charities sub-sector within which we frame our response.

The ACNC is aware of a number of challenges that some charities have experienced in applying these new accounting standards and we note with appreciation the AASB's efforts to assist not-for-profit organisations with implementation issues, for example through the publication of the AASB Staff FAQs for Not-for-Profit Entities document.

Consistency in applying the recognition and measurement requirements in these standards will help charities to correctly calculate their annual revenue for the ACNC financial reporting framework, which is particularly relevant in light of recent changes to charity size threshold that are expected to reduce red tape for the sector.

We welcome the AASB's proposal to further assist not-for-profit organisations by updating the examples in AASB 15 and AASB 1058.

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Proposed amendments to AASB 15 and AASB 1058 (all not-for-profit entities)

Question 1 Do you agree that the proposed amendments to the AASB 15 and AASB 1058 illustrative examples provide appropriate illustration of the application of the recognition and measurement requirements of the Standards? If not, please explain why.

Our view is that the examples provide appropriate illustration of the application of the recognition and measurement requirements of these standards, however we have some comments regarding the AASB 1058 examples, as follows.

AASB 1058 examples

We suggest that the word 'for' in the second sentence of the accounting treatment section on page 11 should not be deleted.

Example 3A.2 is unclear about how the facts have changed. Specifically, the dot point under 'except that' does not clearly explain which original facts remain and which have been replaced. We have two specific questions about that dot point:

1. If there is a requirement to reinvest the income generated by the endowment, how can the university use that income to further its objectives?

2. If there is no requirement to apply the principal towards cash scholarships at the direction of alumni, does this mean the university can use the principal to further its objectives?

Lastly, the text in 3A.2 may be confusing for some, because the example title says 'income under AASB 1058', but the accounting treatment section says 'as income immediately in profit or loss on recognition of the financial asset in accordance with AASB 9'. Should it instead say that 'no related amount is recognised in accordance with AASB 9 or other standards'? In its current form this section could make it seem that income is recognised under AASB 9, rather than AASB 1058.

Concessionary leases (not-for-profit private sector lessees)

Question 2 In respect of not-for-profit private sector lessees, do you agree with the proposal that the current accounting policy choice in AASB 16 paragraphs Aus25.1–Aus25.2 (for not-for-profit entities to elect to initially measure a class of concessionary right-of-use assets at cost or fair value) should be retained on an ongoing basis (i.e. with no plan to reconsider the accounting policy choice)? If not, please provide your reasons.

Yes, the ACNC does agree with the proposal to retain this accounting policy choice on an ongoing basis.

We have received feedback that determining fair value can be challenging for some charities and we note that AASB 16 was previously amended by AASB 2018-8 to temporarily provide this relief, partly because of pending changes to ACNC reporting thresholds that would result in some 'medium' sized charities not being required to submit financial reports to the ACNC from the 2022 reporting period onwards.

There are also concerns about the additional cost of determining fair value and whether these outweigh any benefit that may arise for users. For example, we currently have no information to suggest that users have a particular interest in the fair value of peppercorn leases.

Many smaller charities rely heavily on volunteers, and often do not have the necessary financial resources to develop in-house capabilities or engage external valuation providers to measure the fair value of concessionary leases. In our view, the initial recognition of concessionary leases using fair value should not contribute to a charity's revenue determination because of its 'one-off' nature and is not part of ordinary activities for charities.

To reflect the restricted use (leases used for charitable purpose only) in the fair value of their non-financial assets adds another layer of complexity for charities with limited resources and detracts from their ability to achieve their charitable purpose(s). The ACNC annual review of charity financial reports has shown that many charities elect to measure non-financial assets using the cost model.

Question 3
Do you agree that the disclosures required by AASB 16 (including the requirements in AASB 16 paragraphs Aus59.1–Aus59.2) provide sufficient information to users of financial statements in the absence of fair value information? Are there any other disclosures regarding concessionary leases that would be useful to users of financial statements without incurring undue cost or effort for preparers? Please provide reasons to support your answer.

Using fair value to reflect a large amount of income for a charity arising from recognising concessionary leases in the first year, followed by a long series of subsequent depreciation/amortisation may not help users to understand a charity's financial performance or how they use their resources for their charitable work. And there is a risk that it could confuse some users of charity financial reports.

The disclosures requirements under AASB 16 paragraphs Aus59.1─Aus59.2 provide adequate information to users of financial statements about a charity's concessionary lease(s) to understand the effects on the financial position, financial performance and cash flow of the charity, in the absence of fair value information. The focus is to promote awareness and compliance for charities electing the cost option to prepare additional disclosures, but not limited to:

- the entity's dependence on leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives; and
- the nature and terms of the leases, including:
    - the lease payments;
    - the lease term;
    - a description of the underlying assets; and
    - restrictions on the use of the underlying assets specific to the entity

We are not aware of any other disclosures that would be useful.

If you have queries about this submission, please contact our Reporting team at Reporting@acnc.gov.au.

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