

# Farewell special purpose – Not-for-profit entities

Reporting update  
25 January 2023, 23RU-03



## Continue development of Australian financial reporting framework

## Focus moves to NFP private sector entities

## Stage 1 focuses on removal of SPFS

### Highlights

- Key features ....
- Two-stage project
- Example of proposals

### Key features ....

Over the last five years the Australian Accounting Standards Board (AASB) has been working on updating the private sector Australian financial reporting framework. In March 2020 the AASB finalised changes to the framework relating to the for-profit private sector. In part this included removing the ability for certain for-profit private sector entities to prepare special purpose financial statements (SPFS). Refer to [Appendix 1](#) for a snapshot of the current private sector Australian financial reporting framework.

### Not-for-profit private sector

The AASB has now turned its attention to the not-for-profit (NFP) private sector Australian financial reporting framework. To shape the NFP private sector financial reporting framework, the AASB is seeking to:

- Stage 1 – extend the application of the *Conceptual Framework for Financial Reporting* to remove the ability for certain NFP private sector entities from preparing SPFS.
- Stage 2 – address more significant and conceptual issues including management stewardship and whether ‘users’ of NFP financial statements should be more broadly regarded.

In September 2022 the AASB published its Discussion Paper – *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* being the first step in revising the NFP private sector financial reporting framework. Comments on the DP are open until **31 March 2023**.

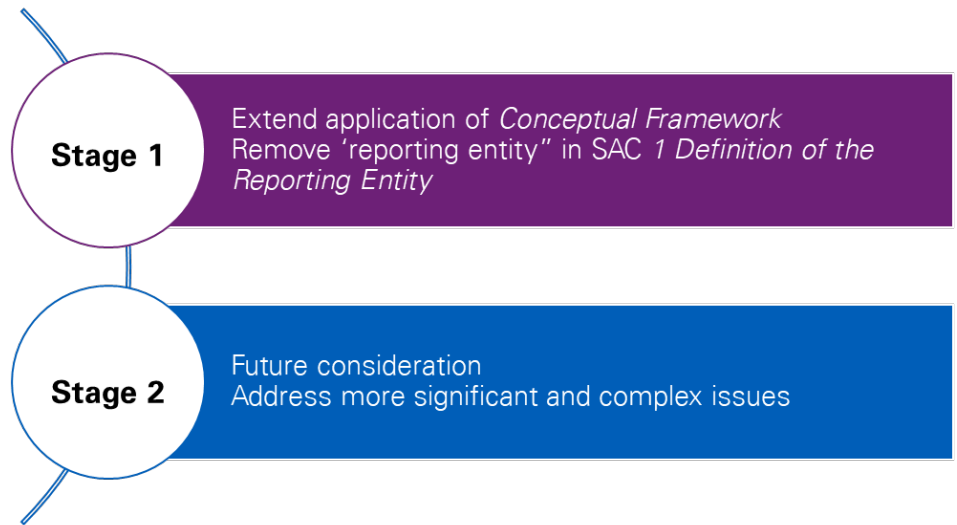
The overall project objective of the AASB deliberations is to develop a simple, proportionate, consistent and transparent financial reporting framework for application by NFP private sector entities.

In the DP the AASB has expressed a view that the effective date for removing the ability for NFP private sector entities to prepare SPFS should align with the introduction of Tier 3 reporting requirements. For details of the proposals for Tier 3 reporting requirements refer to [23RU-04 New NFP GPFs Tier 3 proposed](#).

## Two-stage project

The AASB is conducting a two-stage project relating to its *Conceptual Framework for Financial Reporting* applicable to NFP entities.

### Stage 1 has commenced



### Stage 1

The primary purpose of this stage is to extend the application of the *Conceptual Framework for Financial Reporting* to all NFP entities. This stage is expected to incorporate the NFP modifications detailed in the *Framework for the Preparation and Presentation of Financial Statements* into the *Conceptual Framework for Financial Reporting*, essentially **unchanged**.

### Removal of SPFS

As part of this stage, for a NFP private sector entity, "reporting entity" will no longer be defined by SAC 1 *Definition of the Reporting Entity* but will simply reference the entity preparing the financial statements. This is consistent with the approach taken on the for-profit private sector project to improve the quality and comparability of reporting by entities.

### Development on new GPFS Tier 3 (simplified accounting)

The key proposal of this stage is to develop a stand-alone accounting standard containing the accounting requirements for smaller NFP private sector entities – a third form of GPFS: GPFS-Tier 3 (simplified accounting). These proposals are aimed at providing simpler accounting requirements while improving the comparability and quality of financial reporting, and at the same time reducing costs for these smaller NFP private sector entities.

NFP entities would still be able to prepare either GPFS-Tier 1 (full IFRS®) or GPFS-Tier 2 (simplified disclosures). Tier 1 and Tier 2 reporting requirements will continue to have the same meaning for both for-profit entities and NFP entities.

### What type of financial statements are required?

The AASB has expressed the view that the establishment of appropriate reporting thresholds and any dictate of a specific form of GPFS is more appropriately within the remit of the relevant legislation or regulatory authority.

### Who might be impacted?

As such the AASB is not directly considering whether a NFP entity is required to prepare GPFS and if so, what tier should be applied. This is broadly in line with the approach taken when considering private sector for-profit entities.

Refer to [Appendix 2](#) for a summary of the current and proposed NFP private sector Australian financial reporting framework.

## 23RU-03 Farewell special purpose – Not-for-profit entities

**Proposed not to develop cash basis of accounting**

**Not part of Stage 1**

**To be considered after Stage 1**

#### **Tier 4?**

The AASB considered whether to develop a tier 4 form of financial reporting – a cash basis of accounting.

In the AASB's view the population of micro entities required to prepare financial statements in accordance with Australian Accounting Standards is likely to be small. In addition, a cash basis of accounting is not consistent with an accrual principle which is the basis for Australian Accounting Standards. As such the AASB is not proposing to develop a fourth differential reporting tier.

#### **Service performance reporting**

As part of Stage 1 the AASB does not intend to develop proposals for reporting service performance information. While the AASB considers such information highly relevant to users of a NFP entity's financial statements it is conscious that developing proposals will likely delay the finalisation of any Tier 3 reporting requirements.

A separate project on service performance reporting is not expected to commence until the second half of 2023.

#### **Stage 2**

The primary purpose of stage two will be to address more significant and complex conceptual issues affecting NFP entities. As part of this stage, the AASB intends to review the objective of general purpose financial reports for NFP entities and the users of those financial statements.

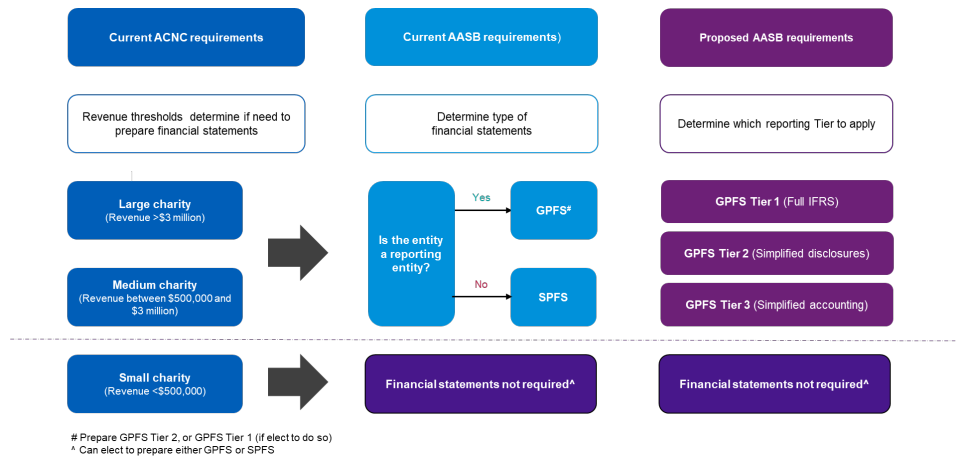
Specifically, the AASB intends to consider:

- the emphasis given to management stewardship (or accountability) as part of the objective of general purpose financial reporting for NFP entities
- whether the 'users' of a NFP private sector entity's GPFS should be more broadly regarded (for example, whether users always include regulators and advisors of members of parliament).

Stage 2 will commence in the future, after the completion of Stage 1.

## Example of proposals

The following illustrates the proposals contained in the Stage 1 DP for Australian Charities and Not-for-profits Commission (ACNC) regulated entities.



### ACNC to determine

The ACNC is responsible for determining the reporting thresholds. The AASB has the view that any dictate of a specific form of GPFS is within the remit of the ACNC. As such this puts the onus on the ACNC to specify the type of GPFS to be prepared for large and medium charities.

To date, the ACNC has not responded to the above AASB proposals.

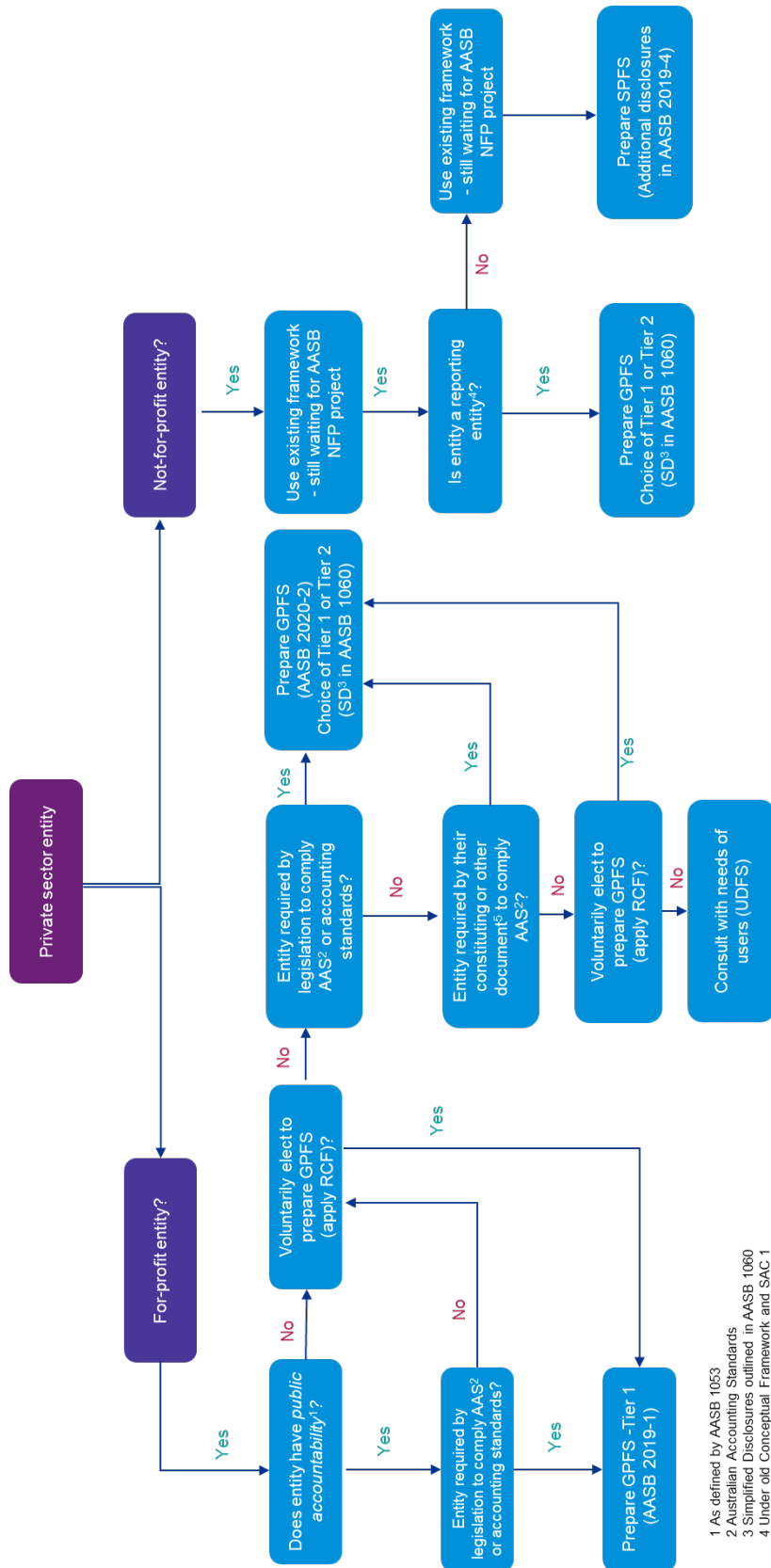
### 23RU-03 Farewell special purpose – Not-for-profit entities

The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation. Liability limited by a scheme approved under Professional Standards Legislation.

# Appendix 1 - Current Private Sector Australian Financial Reporting Framework

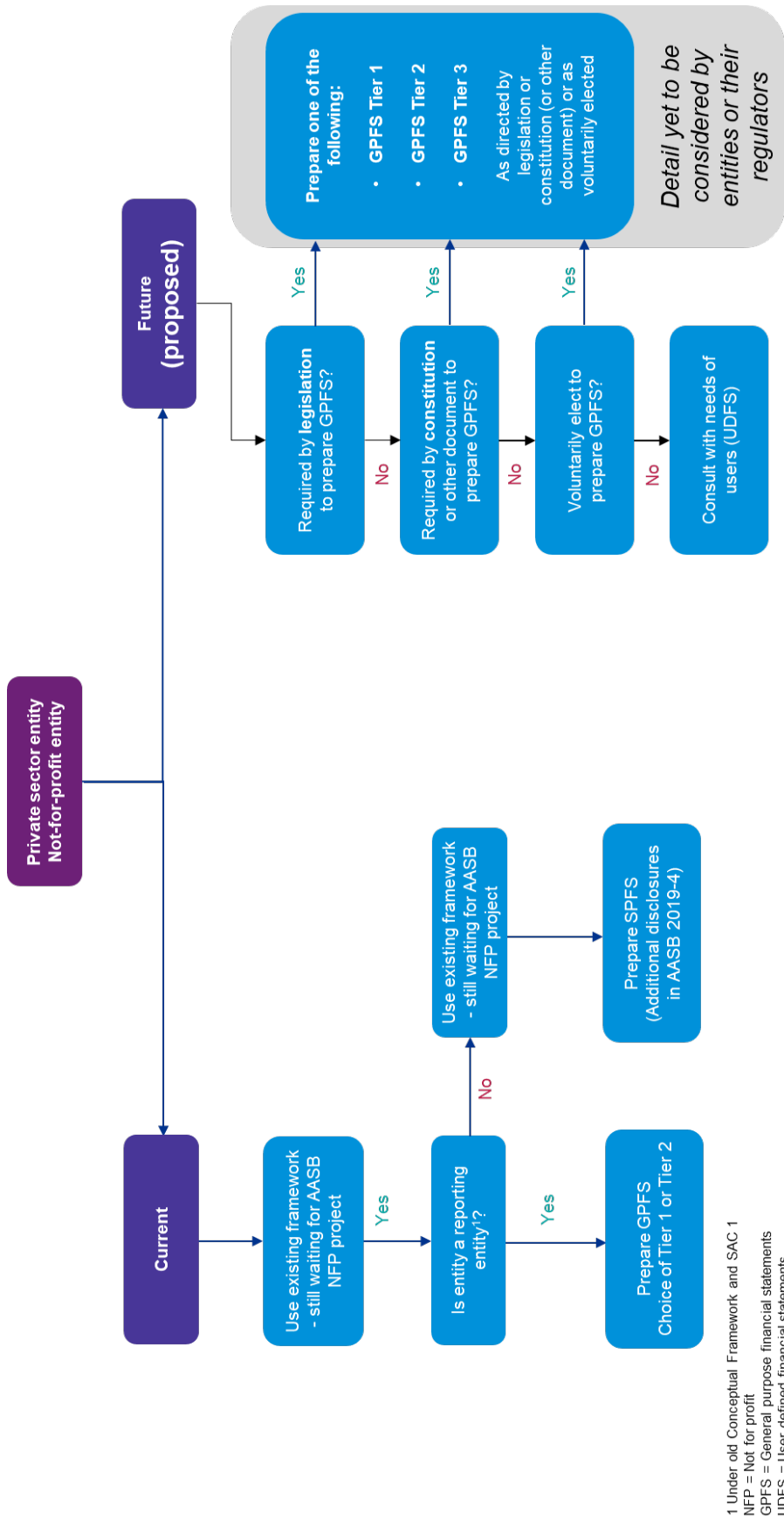


1 As defined by AASB 1053  
 2 Australian Accounting Standards  
 3 Simplified Disclosures outlined in AASB 1060  
 4 Under old Conceptual Framework and SAC 1  
 5 Created or amended on or after 1 July 2021  
 UDFS = User defined financial statements  
 RCF = Revised conceptual framework

## 23RU-03 Farewell special purpose – Not-for-profit entities

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation. Liability limited by a scheme approved under Professional Standards Legislation.

# Appendix 2 - NFP Private Sector Australian Financial Reporting Framework



1 Under old Conceptual Framework and SAC 1  
 NFP = Not for profit  
 GPFS = General purpose financial statements  
 UDFS = User defined financial statements

## 23RU-03 Farewell special purpose – Not-for-profit entities

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation. Liability limited by a scheme approved under Professional Standards Legislation.