Not-for-profit financial reporting framework developments

Reporting update
29 November 2024, 24RU-16

Align NFP financial reporting framework with for-profit reporting framework

Remove ability to prepare special purpose financial statements

Extend scope of AAS to more NFP entities (public & private sector)

New simplified GPFS-Tier 3 proposed for NFP private sector entities

Comments due by 28 February 2025

Alignment to for-profit framework

In March 2020, the Australian Accounting Standard Board (AASB) finalised the "new" for-profit private sector Australian financial reporting framework. Under the new framework, the ability for certain for-profit private sector entities to prepare special purpose financial statements (SPFS) was removed and such entities are now required to prepare general purpose financial statements (GPFS). This framework was effective for financial years beginning on or after 1 July 2021.

The AASB has turned its attention to the not-for-profit (NFP) sector Australian financial reporting framework. The overall project objective is to develop a simple, proportionate, consistent and transparent financial reporting framework for application by NFP entities. This is proposed to be achieved by extending the application of the *Conceptual Framework for Financial Reporting* (Conceptual Framework), including to remove the ability for certain NFP private and public sector entities from preparing SPFS.

Following the publication and deliberation of feedback on Discussion Paper (DP) – *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* in late 2022, the AASB published two Exposure Drafts in October 2024.

- *ED 334 Limiting the ability of Not-for-Profit entities to prepare Special Purpose Financial Statements* which proposes superseding the reporting entity concept and extending the scope of Australian Accounting Standards to more NFP entities (both public and private sector). Consequently, certain NFP entities will be required to prepare GPFS.
- *ED 335 General Purpose Financial Statements - Not-for-Profit private sector Tier 3 entities* which proposes to introduce a new general purpose reporting tier, Tier 3 contained in a stand-alone accounting standard specifically for use by smaller NFP private sector entities.

Comments on the Exposure Drafts are open until 28 February 2025.

Further details are set out in this Reporting Update.

ED 334 Limiting the ability of Not-for-Profit entities to prepare Special Purpose Financial Statements (ED 334)

Main requirements

ED 334 proposes:

- **extending** the application of the *Conceptual Framework for Financial Reporting* (Conceptual Framework), including adding 'Aus' paragraphs to ensure its contents are relevant to NFP entities
- **extending** the application of Australian Accounting Standards (AAS) to NFP private and public sector entities
- superseding SAC 1 *Definition of the Reporting Entity* and thereby **removing** the ability of NFP entities **to prepare** special purpose financial statements (**SPFS**) on the basis that the entity is not a reporting entity (as defined by SAC 1).

Comments are due by 28 February 2025

Who is impacted?

NFP entities (**both public and private sector**) that:

- are required by legislation to comply with either Australian Accounting standards (AAS) or accounting standards
- are required by their constituting document or another document to prepare financial statements that comply with AAS **(subject to an exemption – see below)**
- elect to prepare general purpose financial statements

will be **required** to prepare **GPFS**.

Examples of entities that could be affected:

- Companies lodging financial statements under the *Corporations Act 2001*, e.g. companies limited by guarantee
- Large and medium charities registered with the ACNC
- Incorporated associations and other entities required by State/ Territory legislation to prepare financial statements in accordance with AAS or accounting standards.
- Trusts or other entities required only by their constituting or other document to prepare financial statements that comply with AAS.

Comparison to for-profit

The AASB is proposing a **consistent approach** to removing the ability to prepare SPFS to NFP entities that it took for the for-profit private sector.

Specifically:

- **applied an exemption** where entities are only required by their constituting document or another document to prepare financial statements that comply with AAS
- transition reliefs for the first year of application where the entity **adopts** the new standard **early**.
- specific disclosures included in the basis of preparation where SPFS are still prepared due to the application of the exemption.

Exemption An exemption to prepare GPFS for entities only required by their constituting document or another document to prepare financial statements that comply with AAS **as long as** the constituting or other document was **created or amended before** the effective date of the amending standard [effective date still to be determined].

ED 334 Limiting the ability of Not-for-Profit entities to prepare Special Purpose Financial Statements (ED 334)

Transition relief

To assist with transition, relief is proposed for an entity that **early adopts** the standard.

- **Correction of errors** – entities moving from SPFS to GPFS-Tier 2 need not distinguish between the correction of errors and changes in accounting policies if the entity becomes aware of errors made in its most recent previous SPFS.
- **Comparative information not previously disclosed** – entities applying GPFS-Tier 2 need not present comparative information if it did not disclose the comparable information in its most recent previous SPFS.
- **Restating comparatives** – Notwithstanding AASB 1 requirements, comparative information is not required to be restated in the year of transition. The date of transition is changed to the beginning of the reporting period, rather than the beginning of the earliest comparative period. This means that the comparatives presented will be those amounts presented in the most recent previous financial statements.

Still preparing SPFS

Basis of preparation

NFP private sector entities only required by their constituting document or another document to prepare financial statements that comply with AAS **still preparing SPFS** will be required to include specific information in their basis of preparation. These are the entities applying the allowable exemption.

At a high-level the disclosure covers information about the compliance with the recognition and measurement requirements in AAS.

More specifically, a NFP entity preparing SPFS must disclose information in relation to each of the following:

- basis on which the decision was made to prepare SPFS
- material accounting policies
- information when a change in a material accounting policy has an effect on the current period or a future period
- basis of accounting for interest in other entities (if held)
- compliance of each material accounting policy
- compliance of overall financial statements.

Effective date

The AASB intends to provide **at least three years of lead time** between the issue and the effective date of any final standard.

For example, if a final standard is issued in December 2025, the effective date would not be earlier than annual periods beginning on or after 1 January 2029.

ED 335 General Purpose Financial Statements – Not-for-Profit private sector Tier 3 entities (ED 335)

What's been issued?

ED 335 proposes:

- a new **single** accounting standard for the **GPFS-Tier 3** that is suitable for use by **smaller** NFP private sector entities
- the forms and contents of the proposed accounting standard that contains **SIMPLIFIED recognition, measurement, presentation and disclosure** requirements
- to provide **relief** from restating and presenting comparative information in the year of transition for entities transitioning to preparing Tier 3 GPFS.

Comments are due by 28 February 2025

Who is eligible for GPFS Tier-3?

GPFS-Tier 3 will be available **only** to **NFP private sector** entities:

- **not** having **public accountability**
- are **not prohibited from applying GPFS-Tier 3** by the relevant legislation, constituting document or other documents.

The proposed standard does not specify which NFP private sector entities will be permitted to apply the GPFS-Tier 3 reporting requirement. **This will be determined by the relevant regulatory authorities.**

No size thresholds proposed by AASB for application of GPFS-Tier3 . Application of proposed GPFS-Tier 3 for NFP private sector entities will be **determined** by the relevant regulators.

Proposals developed for potential application by 'smaller' entities.

Transition relief

The following transition relief is proposed for a first-time adopter of GPFS-Tier 3.

Transitions from SPFS or GPFS-Tier 1 or 2 to Tier-3

- **Restating comparatives** – Recognise the **cumulative** effects on prior period resulting from changes in accounting policies in the current period's opening retained earnings **without** restating the comparative period.
- **Comparative information not previously disclosed –** not required to provide comparative information for new disclosures.
- **Correction of errors** – need not distinguish corrections of errors and changes in accounting policies.

Additional relief for transitioning from GPFS-Tier 1 or 2 to Tier-3

- **Continue to apply** recognition and measurement accounting policies to some or all of the assets and liabilities existing at the date of transition to GPFS-Tier 3.

Effective date: The AASB intends to provide **at least three years of lead time** between the issue and the effective date of any final standard.

ED 335 I Key simplifications on recognition and measurement

Topics	Proposed GPFS-Tier 3 requirement
Revenue recognition	**Revenue is deferred when there is a common understanding that an entity is expected to perform in a particular manner**. Evidence of a common understanding includes written communication or other written/oral representation regarding the purpose for which an asset is to be expended, transferred or used up or the period over which the transferred asset is to be used. Where the recognition of revenue is required to be deferred, revenue is recognised as the deferred revenue obligation is satisfied. For all other income transactions, the proposal is to recognise income at the earlier of receiving cash or controlling a receivable.
Consolidation	An entity that is a **parent can present either**: • Consolidated financial statements; or • Separate financial statements with disclosure about the 'notable relationship' entities.
Notable relationships	The concept of '**notable relationships**' is introduced which exists where an entity has at least significant influence# over another entity (i.e. control, joint control or significant influence). An entity that determines it has a notable relationship is not required to determine the nature of that relationship. An entity that presents separate financial statements has an accounting policy choice to account for all its notable relationships: • At cost; or • At FVTPL (unless an irrevocable election at initial recognition to measure at FVOCI); or • By applying equity methods. # The determination of whether significant influence exists is consistent with GPFS-Tier 2.
Entity combinations	The concept of '**entity combinations**" replaces the concept of business combinations under AAS. The carrying amounts of assets, liabilities and items of equity of the combined entity are based on their **pre-combination carrying amounts** at the deemed combination date, which is the **beginning of the reporting period** during which the combination occurred. Any difference between the consideration paid and the net assts recognised is recognised directly in equity, no goodwill will be recognised.
Donated assets	Donated assets can be measured at its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount) or, a reliable measure of its current replacement cost if that asset is classified as inventory, or its fair value as at the date of donation if that asset is classified as property, plant and equipment or investment property.
Ability to 'opt-up' to other tiers **limited**	An entity can only selectively apply Tier 2 R&M requirements where: • the transaction or balance is an omitted topic from the Tier 3 Standard; or • the topic is not directly addressed in Tier 3 reporting requirements. Otherwise, an entity can only elect to 'opt-up' to Tier 1 or Tier 2 AAS in their entirety.

ED 335 I Key differences between Tier 1/ Tier 2 and proposed Tier 3

Other key recognition differences

Topic	Proposed GPFS-Tier 3 requirement
Leases	All 'off balance sheet'.
Deferred taxes	Deferred tax assets and deferred tax liabilities are not recognised
R&D	All expensed
Borrowing costs	All expensed
Goodwill	Accounting does not give rise to goodwill (See 'Entity combinations')
Hedge accounting	Not available

Topics not addressed in GPFS-Tier 3

Topic
More complex financial assets and financial liabilities
Assets held for sale
Biological assets and agricultural produce
Exploration for, and evaluation of, mineral resources activities
Insurance contracts within the scope of AASB 17 *Insurance Contracts*
Obligations under a defined benefit plan
Share-based payment arrangements

Other key measurement differences

Topic	Proposed GPFS-Tier 3 requirement
Impairment	May be recognised later
Provisions	Estimate is not discounted
Interest expense /income	Simpler interest formula using contractual interest rate
FVOCI election	Made in respect of class of assets rather than by individual asset

Further information

The AASB has provided further information and resources:

- **Key facts** document providing a high-level overview of the Exposure Drafts
- **Summary** of the Tier 3 Exposure Draft proposals and the extent of simplification against Tier 2 reporting requirements.

KPMG.com.au