

FACTSHEET

IMPORTANT CHANGES TO THE AUSTRALIAN FINANCIAL REPORTING FRAMEWORK FOR NOT-FOR-PROFITS

30 JUNE 2020

Introduction

This factsheet is a quick guide to the latest decisions of the Australian Accounting Standards Board (AASB) on its reporting framework reform project for not-for-profit (NFP) entities. This work is being carried out in three broad phases: -

- **Disclosures** – Introduce additional disclosure requirements for NFPs preparing special purpose financial statements (SPFS) that state compliance with Australian Accounting Standards (AAS), and develop a significantly simplified disclosure framework for NFPs already preparing Tier 2 general purpose financial statements (GPFS)
- **NFP definition** - Develop a revised definition of the term 'not-for-profit' to better support NFP financial reporting framework reform
- **Broader framework reform** – Develop a fit-for-purpose differential reporting framework for the NFP sector that will replace the current framework and will impact the ability of some NFPs to prepare SPFS.

CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) have jointly developed this factsheet to inform members and stakeholders in the NFP sector about the project developments that occurred at the AASB's March and April meetings and the AASB's next steps.

Disclosures

Following approval at its March meeting, the AASB has released [AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities \(AASB 1060\)](#). AASB 1060 applies to financial years beginning on or after 1 July 2021, i.e. full financial years ending 30 June 2022 and beyond. Early adoption is permitted.

AASB 1060 introduces a new simplified disclosure package where all the disclosure requirements relevant to a Tier 2 GPFS are contained in a single standard. These disclosures are based on the IASB's IFRS for SMEs standard and have been significantly simplified when compared to the disclosures required by a Tier 1 entity or to the disclosures required under the AASB's existing Tier 2 Reduced Disclosure Regime (RDR), especially in the areas of revenue, leases, impairment and financial instruments.

As AASB 1060 will replace RDR, all NFP (private and public sector) entities that currently prepare Tier 2 GPFS will be required to transition to the new standard.

AASB 1060 does not apply to entities that prepare Tier 1 GPFS.

It also does not apply to NFPs that prepare SPFS as they are not impacted by the issue of [AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities](#) (AASB 2020-2) which was approved at the same time as AASB 1060. For more information on AASB 2020-2 please refer to our [Factsheet – Important changes to the Australian financial reporting framework](#).

However, some NFPs preparing SPFS do have new disclosure requirements following the issue of [AASB 2019-4 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements](#) late last year. This standard requires that NFPs preparing SPFS that are required to comply with AASB 1054 *Australian Additional Disclosures* (e.g. charities registered with the Australian Charities and Not-for-profits Commission or public companies limited by guarantee) now disclose information about compliance with all the recognition and measurement requirements in Australian Accounting Standards (AAS). These requirements are effective for annual periods ending on or after 30 June 2020, with early voluntary disclosure permitted.

NFP Definition

Accounting standards currently define the term 'not-for-profit' as 'an entity whose principle objective is not the generation of profit'. The AASB identified this definition as inadequate to demarcate for-profit entities from NFP entities for financial reporting framework purposes. In response, the board consulted on a revised definition in 2019, via ED 293. Having considered stakeholder feedback to this ED the AASB approved the following definition of the term 'not-for-profit' at its March meeting:

An entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders

The AASB's current plan is to supplement this definition with additional implementation guidance. It will include a rebuttable presumption that 'an entity is an NFP for financial reporting purposes if it is a NFP for taxation purposes'. This change is being proposed to address stakeholder feedback that some entities currently classified as NFPs may no longer be able to meet the above definition when it is implemented. The exact wording of the rebuttable presumption and examples to illustrate its application are currently being developed.

NFP entities and their advisors should consider the impact of the proposed new NFP definition on their particular circumstances. The application of the definition will require judgement and it is possible that some existing NFP entities may no longer meet the new NFP definition. Therefore, these entities will be considered to be a for-profit entity for financial reporting purposes while remaining an NFP entity for tax and other regulatory purposes. Possible entity types are some member-based entities, some cooperatives and some NFPs within a group structure. The AASB is expected to provide further clarity on this issue in due course. It is also expected to provide flow charts and additional illustrative examples that will support implementation of the new definition, addressing other stakeholder concerns.

In assessing any impacts the AASB's newly updated staff paper [Modifications to Australian Accounting standards for NFP entities](#) will highlight the key areas of difference between NFP and FP requirements.

Broader framework reform

The use of *Statement of Accounting Concepts 1* (SAC 1) by private and public sector NFPs to allow the preparation of SPFS remains unchanged at present because the AASB's new amending standard AASB 2020-2 applies only to certain for-profit entities.

However, this situation will change as the AASB progresses the Australian Financial Reporting Framework project and directs its focus to NFP private and public sector entities. According to the AASB work plan, the NFP private sector can expect an Exposure Draft setting out proposals for a revised framework in the fourth quarter of 2020. The AASB is also conducting outreach during 2020 on the development of the public sector framework but has not indicated when a formal consultation process will take place.

More information

- [AASB website](#) – including [March meeting Action Alert](#), [AASB 2020-2](#) and supporting [fact sheet](#), [AASB 1060](#) and supporting [fact sheet](#), [AASB 2019-4](#) and supporting [fact sheet](#).
- [AASB staff paper Modifications to Australian Accounting Standards for NFP entities](#)

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