Not-for-profit 2021 financial reporting update

The June 2021 reporting season is expected to be a challenging period

The June 2021 reporting season is expected to be a challenging period for many not-for-profit (NFP) entities as they continue to navigate through the post-implementation issues of income and lease accounting in addition to more recent developments set out in this update. The key matters to consider for this current reporting season are:

- Post-implementation issues in respect of :
  - Income recognition – The application of AASB 1058 *Income of Not-for-Profit Entities* and AASB 15 *Revenue from Contracts with Customers* continues to prove challenging with key areas considered by the Australian Accounting Standard Board (AASB) including termination for convenience clauses, concessionary loans and determining whether the entity is able to recognise the right to receive an asset in cases where the related asset has not yet been received
  - Leases – The accounting for lease modifications is a complicated area, amplified by the economic impacts of COVID-19 on the property leasing market
- Software-as-a-Service (SaaS) arrangements – In April 2021 the IFRS Interpretations Committee (IFRIC®) published an agenda decision concluding that the majority of configuration and customisation costs incurred in implementing SaaS arrangements should be expensed with only limited scope for capitalisation in certain circumstances
- Early adoption of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* – The AASB issued AASB 2021-1 *Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities* which provides optional comparative information relief for NFP entities adopting AASB 1060 earlier than the 1 July 2021 effective date
- ACNC 'best practice' guidance – The Australian Charities and Not-for-profits Commission (ACNC) has released 'best practice' guidance to encourage charities to provide better information for users of their financial reports to understand the source and amounts of government revenue.

In addition it is important to be aware that the Treasury announced revised ACNC financial reporting thresholds which are effective for the 2021-22 financial year and new disclosure obligations for charities in relation to key management personnel compensation and related party transactions which are required for the 2021-2022 and 2022-2023 financial years respectively.

Introduction

The June 2021 reporting season is expected to place demands on financial reporting processes for many NFP entities, having now fully adopted and applying the following new standards:

- AASB 1058 *Income of Not-for-Profit Entities*
- AASB 15 *Revenue from Contracts with Customers*
- AASB 16 *Leases*

Experience in working through the issues shows that these are complex standards that continue to result in numerous areas of significant judgement and intricate application that, if not appropriately addressed, could result in errors in financial reporting. This publication discusses the post-implementation issues faced by NFP entities in accounting for income and leases.

In addition, NFP entities also need to consider other key accounting matters for the June 2021 reporting season, including the IFRIC agenda decision on accounting for certain cloud computing arrangements and the early adoption of the new Simplified Disclosures Framework, where applicable.

Looking ahead, this publication covers NFP specific developments in the regulatory space, specifically the new lifted ACNC financial reporting thresholds which will be effective from 1 July 2022.

Post implementation guidance on income requirements

Overview

The AASB has provided guidance for certain aspects of accounting around NFP income streams. During 2020 two additional topics were covered within the AASB FAQs to support the application of both AASB 15 and AASB 1058. The two new issues covered were:

- Treatment of concessionary loans and
- Initial recognition issues for a right to receive an asset.

In addition to the AASB FAQs, the AASB also discussed the implications of termination for convenience clauses related to income recognition for NFP entities at its November 2020 meeting.

This section covers some of the more commonly noted post-implementation issues identified arising from the application of AASB 15 and AASB 1058.

One of the most judgemental areas remains the determination of whether a transaction should be accounted for under AASB 1058 (which could result in immediate income recognition) or under AASB 15 (which provides opportunities for income deferral). To make this assessment, NFP entities will need to perform a detailed analysis of the contract terms to determine the 'enforceability' of the contract and also whether the performance obligations are 'sufficiently specific'. In practice, assessing these two criteria can be very challenging.

Further information

For a detailed explanation and assessment of the definition of 'significantly specific' and 'enforceable contract', see our *Clarity in financial reporting* publication, Not-for-profit *financial reporting June 2020* (available at www.deloitte.com).

Termination for convenience clause

Certain contracts may contain clauses which allow the grantor to terminate the contract at its sole discretion (as opposed to termination due to a breach of terms) and may require the NFP entity to refund any unspent funds at the date of the termination. These are commonly referred to as 'termination for convenience clauses'. The extract below provides an example of such a clause.

Example 1. Termination for convenience clause

"The Grantor may terminate or suspend this Deed, in whole or in part, by notifying the Recipient in writing that this Deed is terminated or suspended. On termination, any unspent funds held by Recipient must be returned to the Grantor. For the avoidance of doubt the Grantor has an unfettered discretion to terminate the Deed in accordance with this clause".

The key accounting issue arises where an entity has received funds upfront. The entity then needs to determine if the clause results in the recognition of a financial liability (AASB 9 *Financial Instruments)* or refund liability (AASB 15) at the inception of the contract or only when there is a request for repayment.

In the circumstances outlined above, the Grantor has the sole discretion to terminate the Deed and this is out of the control of the recipient. Even if the recipient is performing in accordance with contractual expectations, the grantor can still terminate using this clause and demand repayment. Accordingly, the recipient does not have 'an unconditional right to avoid delivering cash to settle a contractual obligation'. Therefore, the total amount of funding should be treated as a financial liability at inception by the recipient entity. Assuming this is a contract under AASB 1058, the liability is then only extinguished as the NFP entity spends the funds which it can then recognise as income under AASB 1058.

We note that the termination for convenience clauses are common within funding agreements entered into with the government sector and can be viewed by some as being protective in nature to provide flexibility to government where required. According to this view, there is no obligation on the part of the recipient to repay or a right for government to collect until the government serves a written notice and thus, no financial liability should be recognised by the recipient until there is a specific request for repayment.

In our experience, we note that these clauses are exercised in practice and would be considered substantive in nature where, for example, the grantor experiences a budget cut and would in turn either terminate or reduce the scope of contracts with NFP entities that it had granted funds to.

In terms of recent developments, we note that this matter was last discussed at the November 2020 AASB board meeting where it was concluded that there was enough guidance within the existing standards. That is, accounting standards such as AASB 1058 which covers the overarching principles, AASB 15 that deals with contract liabilities and, AASB 9 *Financial Instruments* and AASB 132 *Financial Instruments: Presentation* that cover the classification, recognition and measurement of financial liabilities.

Thinking it through – Questions to consider

- Do your contracts contain termination for convenience clauses?
- Have you considered whether these give rise to the recognition of liabilities?
- Are these clauses substantive in nature (rather than just protective)?

Concessionary loans

Concessionary loans are loans that are issued below market value (e.g. with an interest rate that is significantly below market or interest free). Such loans are common within the NFP industry, as many NFP entities receive concessionary loans due to their status of being a NFP entity.

The AASB FAQ provides non-authoritative guidance on how a NFP entity applies AASB 1058 and AASB 9 in accounting for concessionary loans, highlighting that both standards are applied together. Generally, concessionary loans are within the scope of AASB 9 and, if such a loan is provided to a NFP entity to further its objectives, the loan is also within the scope of AASB 1058. A NFP entity may either apply AASB 9 first or AASB 1058 first in accounting for a concessionary loan and this should result in the same accounting outcome. In essence, both AASB 9 and AASB 1058 are applied together since Australian Accounting Standards do not specify a sequence for applying the Standards. To demonstrate that the order of the application sequence does not affect the accounting outcome, refer to the examples below:

Example 2a. Concessionary loan applying AASB 9 first (approach 1)[1]

Applying AASB 9 requires the NFP entity to determine whether a loan arrangement has one or more components in addition to the financial liability and, if so, to separately account for these other components.

Fact pattern

A NFP entity receives an interest-free loan of $100,000 from a government agency. The loan is provided principally to enable the entity to further its objectives. The $100,000 principal is to be repaid at the end of the 5-year term.

The NFP entity has not had any borrowings before and has estimated the prevailing market rate of interest for a similar loan (term, principal repayment at the end, credit risk, currency, etc.) at 5% pa. At initial recognition, the transaction price of the financial liability for the loan component, based on the present value of the future principal repayment, discounted at the estimated market interest rate, is $78,353. The fair value of the financial liability is assumed to equal the transaction price of the liability, in the absence of any contrary evidence. There are no further 'related amounts' to be attributed under AASB 1058.

Accounting considerations

The NFP entity could apply AASB 9 first and determine that the loan arrangement includes two components:

1. A financial liability for the loan; and
2. A beneficial component because the fair value of the financial liability is significantly less than the fair value of the total loan proceeds received.

As a result, the entity will record the following entries:

1. The loan component

	Dr	Cr
Financial asset (cash)	$78,353	
Financial liability		$78,353

2. The beneficial component

	Dr	Cr
Financial asset (cash)	$21,647	
Income		$21,647

[1] Source: Example 2a has been extracted from Question 12 of AASB Staff FAQ on AASB 1058, AASB 15 & AASB 16.

Example 2b. Concessionary loan applying AASB 1058 first (approach 2)[2]

Alternatively, the entity may consider the requirements of AASB 1058 first.

Fact pattern
Same as Example 2a.

Accounting considerations
Where NFP considers applying AASB 1058 first, the loan arrangement is accounted for as follows:

1. Financial asset for the loan proceeds received in accordance with AASB 1058
2. Financial liability being the related amount in accordance with AASB 1058, measured at fair value under AASB 9
3. Income in profit or loss in accordance with AASB 1058

As a result, the entity will record the following entries:

	Dr	Cr
Financial asset (cash)	$100,000	
Financial liability		$78,353
Income		$21,647

Conclusion
Based on the example above, at initial recognition, applying either AASB 9 or AASB 1058 first would result in the same accounting outcome.

Thinking it through – Questions to consider

- Do you hold or expect to take out a concessionary loan (interest-free or below market interest rate)?
- For below-market loans, is the interest rate 'significantly' below market such that it falls in the scope of AASB 1058?
- Have you considered how AASB 9 and AASB 1058 interact for recognition and measurement of concessionary loans?

Initial recognition of the right to receive an asset where the related asset has not yet been received

This AASB FAQ was added to address the accounting for a right to receive an asset under AASB 1058 where the related asset or cash has not yet been received. In most transactions within the scope of AASB 1058, the recognition of the asset is relatively straightforward. This is because it is clear that the entity controls the transferred asset. For example, in many cases, the entire asset has been received in cash before the reporting date.

However, in some transactions within the scope of AASB 1058, it might not be as clear that the NFP entity has a recognisable asset and therefore unclear whether it has earned the associated income by the reporting date. This is particularly true where an entity has partially but not yet fully performed the activities required under the agreement and the associated asset (e.g. the funding) has not yet been received. In these cases, the question then arises as to whether an asset representing the right to receive cash (e.g. financial asset under AASB 9) should be recognised and if so, the appropriate timing of recognition of the asset.

In determining if the NFP entity is able to recognise a financial asset under AASB 9, the entity needs to consider all the facts and circumstances of the transaction. For example, the NFP entity should assess whether it has a contractual right to receive cash or another financial asset. In other words, the rights arising from an agreement between two or more parties has to be enforceable by law and the transferring party has little, if any, discretion to avoid the transfer of the asset. When making this assessment, the

[2] Source: Example 2b has been extracted from Question 12 of AASB Staff FAQ on AASB 1058, AASB 15 & AASB 16.

NFP entity would give consideration to whether it has satisfied the eligibility criteria of the grant agreement to the extent of the receivable amount.

Where a NFP entity determines that the criteria for asset recognition have been met, the entity should also apply other requirements of AASB 1058, including:

- Identifying and, as a result, initially recognising any 'related amounts' (i.e any corresponding associated credit amounts that should be recognised as contributions by owners, increases in liabilities, decreases in assets, and revenue in accordance with other Australian Accounting Standards) in accordance with AASB 1058.9 and
- Depending on the nature of the transaction giving rise to the asset:

Nature of transaction	Accounting
Non-capital grant	• Recognise income immediately for any excess of the initial carrying amount of the asset over the related amount (if any) recognised under AASB 1058.9.
Capital grant	• Recognise a liability for any excess of the initial carrying amount of the asset received over related amounts (if any) recognised under AASB 1058.9 and • Recognise associated income when the entity satisfies its obligation under the grant.

Below is an example of a non-capital grant:

Example 3. Non-capital grant[3]

Fact pattern

On 1 April 202X, Entity A (a charity offering and providing a wide range of traditional and innovative support services to at risk individuals through volunteers) is awarded a grant of $90,000 to help it meet the increased demand for its services expected to arise from COVID-19 during the remainder of the calendar year.

The agreement is enforceable in accordance with paragraph F11-F18 of AASB 15 because under the agreement the grantor has the right to take control of NFP's existing COVID-19 oriented resources (including Entity A's volunteer contact list, volunteer training manuals and interactive computer programmes) to be used by another service provider for no charge if Entity A fails to provide COVID-19 related support services over the next 9 months. However, the agreement does not meet the 'sufficiently specific' criterion described in paragraphs F20-F26 of AASB 15 (because the number or type of support services such as smartphone applications or counselling sessions, whether marriage, financial, mental health or other, are not specified). Therefore, the agreement falls within the scope of AASB 1058 (and outside the scope of AASB 15).

According to the agreement Entity A can claim a pro rata amount of the grant after the end of each quarter. Claims are to be made on a straight-line basis over time unless Entity A can demonstrate in any one quarter that another basis can be justified (e.g. because it develops an online support package in one quarter that will be self-sustaining in later quarters). Once a claim is assessed and paid it is non-refundable.

Up to the 30 June 202X reporting date Entity A has conducted COVID-19 related counselling sessions and is in the planning stages of developing a smartphone application. It therefore intends to submit a claim of $30,000 for that quarter, on a time basis. Entity A expects the claim to be accepted by the grantor. Entity A also expects to continue to provide COVID-19 related support services at least for the remainder of the calendar year.

Should Entity A recognise its right to receive $30,000 as an asset as at 30 June 202X and if so, what is the asset and should NFP recognise the associated income at 30 June 202X?

[3] Source: Example 3 is extracted from Question 13 of AASB Staff FAQ on AASB 1058, AASB 15 & AASB 16.

Example 3. Non-capital grant (continued)

Accounting considerations

On 1 April 202X (i.e. at inception of the agreement) no asset (or liability or income) is recognised by Entity A because at that point the agreement is equally proportionately unperformed.

As at 30 June 202X, Entity A applies paragraph 8 of AASB 1058 and determines that under AASB 9 it has a contractual right to receive a portion of the total grant given that it has conducted COVID-19 related support services prior to 30 June 202X and has:

- Assessed that it has satisfied the eligibility criteria of the grant agreement to the extent of $30,000 and therefore has a receivable representing its unconditional contractual right to receive cash in the future and
- Already performed under the contract, i.e. the contract is no longer equally proportionately unperformed.

At the same time Entity A applies paragraph 9 of AASB 1058 and determines there is no 'related amount' to be recognised. Therefore, in accordance with paragraph 10 of AASB 1058, Entity A recognises $30,000 income in its statement of financial performance for the year ended 30 June 202X.

As a result, the entity will record the following entries:

	Dr	Cr
Non-capital grant receivable	$30,000	
Income		$30,000

Thinking it through – Questions to consider

- Have you appropriately identified whether the agreement falls under AASB 15 or AASB 1058?
  - If the obligations are sufficiently specific and in sufficient detail, the grant could be in the scope of AASB 15. If the transaction falls under AASB 15, the asset may be in the form of 'contract asset' or a 'receivable'.
  - If the transaction falls under AASB 1058, then it is important to assess whether there is a contractual right to receive cash under AASB 9 where the other party has little, if any, discretion to avoid transfer of the asset.
- Do you have a grant contract under AASB 1058 where the funding is received after the any related services have been performed?
- Have you appropriately considered how to account for these types of contracts?

Further information

For more information on these topics refer to AASB Staff FAQ on AASB 1058, AASB 15 & AASB 16.

Accounting for lease modifications

Overview

The accounting for lease modifications can be complex and continue to be a challenge for many entities, including NFP entities. This is amplified by the current COVID-19 situation where many entities are looking to amend their lease agreements (e.g. adding or terminating the right to use the underlying assets, or extending or shortening the contractual lease term). AASB 16 contains detailed requirements on how to account for lease modifications. A lease modification is defined as a change in the scope of a lease, or the consideration for a lease, that was not part of the original lease terms and conditions of the lease.

Broadly, a lease modification is accounted for in one of the following two ways:

It is treated as a separate lease (AASB 16.44)
A lease modification should be accounted for as a separate lease if both of the following apply:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

In this case, the right to use one or more additional assets is accounted for as a separate lease (or leases) and the requirements of the AASB 16 are applied independently of the original lease.

It is not treated as a separate lease (AASB 16.45-46).
If both criteria mentioned above are not met, the lease modification is not accounted for as a separate lease. This is typically the case where the lease term is extended or the scope is reduced. In this case it is important to be aware that remeasurement of the lease liability is required at the effective date of the lease modification. The effective date is the date both parties agree to the modification and not when, for example, the original lease term comes to an end.

In recognising the modification at the effective date the lessee should:

a) Allocate the consideration in the modified contract between the any lease and non-lease components (such as services)
b) Determine the lease term of the modified lease and
c) Remeasure the lease liability by discounting the revised lease payments using a revised discount rate, as determined in accordance with the normal principles of AASB 16.

The lessee should generally account for the remeasurement of the lease liability by making a corresponding adjustment to the right-of-use asset. This is illustrated below in Example 4. However where there is decrease in scope of the lease (including a reduction in the lease term), the carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease. Any gain or loss relating to the partial or full termination of the lease should be recognised in profit or loss. This is illustrated below in Example 4.

Lease modification examples

The following two examples illustrate the accounting for a lease modification for the following scenarios:

- Example 4 – Extension of lease term
- Example 5 – Reduction in lease term

Example 4. Leases modification (extension of lease term)[4]

Fact pattern
Entity B enters into a 10-year lease for a 5,000m^2 office space. The annual lease payments are $100,000 per annum, payable in arrears. Entity B's incremental borrowing rate (IBR) at commencement of the lease was 6% p.a.

At the beginning of year 7, the lessor and lessee agree to extend the lease term by four years (i.e. until Year 14) with no changes to the annual lease payment. Entity B's IBR at the beginning of Year 7 is 7% p.a. The lease liability at end of Year 6 was $346,511.

Accounting considerations
At the beginning of Year 7 (the effective date of modification), the lessee accounts for the modification as follows:

Step 1: Determine modified lease liability
- Remeasure the lease liability based on the present value of future lease payments for the remaining eight years based on $100,000 annual payment and IBR of 7%, resulting in a modified lease liability of $597,130.

Step 2: Recognise the modified lease liability
- The lessee recognises the difference of $250,619 between the lease liability immediately before the modification at end of Year 6 of $346,511 and the modified lease liability of $597,130
- The right-of-use asset is adjusted for the same amount (i.e. $250,619).

As a result, the entity will record the following entries:

	Dr	Cr
Right-of-use asset	$250,619	
Lease liability		$250,619

[4] Source: Example 4 is extracted from 'Illustrative Example 16 – Modification that increases the scope of the lease by extending the contractual lease term' of AASB 16

Example 5. Lease modification (reduction in lease term)[5]

Fact pattern

Entity B enters into a 10-year lease for a 5,000m^2 office space. The annual lease payments are $100,000 per annum, payable in arrears. Entity B's IBR at commencement of the lease was 6% p.a.

At the beginning of Year 7 the lessor and lessee agree to decrease the lease term by two years (i.e. until Year 8) with no changes to the annual lease payment. The incremental borrowing rate at the beginning of Year 7 is 7% p.a. The lease liability at the end of Year 6 was $346,511 and the right-of-use asset at the end of Year 6 was $294,403.

Accounting considerations

At the beginning of Year 7 (the effective date of modification), the lessee accounts for the modification as follows:

Step 1a: Determine partial right-of-use asset and lease liability

- The lessee determines the proportionate decrease in the carrying amount of the right-of-use asset based on the remaining lease term; $147,202 ($294,403/4 x 2 years)
- The remaining lease liability based on the original lease term is $183,339 (present value of remaining 2 years payment discounted using the original IBR).

Step 1b: Recognise partial termination

- The lessee reduces the carrying amount of lease liability by $163,172 ($346,511 - $183,339) and reduces the carrying amount of right-of-use asset by $147,201 ($294,403 - $147,202)
- The difference between the decrease in the lease liability and decrease in the right-of-use asset is recognised as a gain in profit or loss (refer to the first journal below).

Step 2: Recognise modified lease liability

- The lease liability for the remaining lease period based on the revised IBR is $180,802
- The lessee then recognises the effect of the remeasurement of the lease liability reflecting the revised discount rate (i.e. the IBR increase from 6% to 7%) of $2,537 ($183,339 - $180,802)
- Right-of-use asset is adjusted for the same amount.

As a result, the entity will record the following entries:

	Dr	Cr
Lease liability	$163,172	
Right-of-use asset		$147,201
Gain		$15,971

	Dr	Cr
Lease liability	$2,537	
Right-of-use asset		$2,537

Further information

For more information refer to AASB 16.44-46 and illustrative examples 16 & 17.

[5] Source: Example 5 is adapted from 'Illustrative Example 17 – Modification that decreases the scope of the lease' of AASB 16

AASB 16 Practical expedient – COVID-19 related rent concession

In light of the COVID-19 pandemic, the AASB issued AASB 2020-4 *Amendment to Australian Accounting Standards – Covid-19-Related Rent Concessions* in June 2020. This amendment provides lessees with a practical expedient not to assess whether a COVID-19-related rent concession is a lease modification and allows lessees to account for such rent concessions as if they were not lease modifications.

The practical expedient applies only to rent concessions as a direct consequence of the COVID-19 pandemic that meet all of the following conditions:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies the practical expedient would generally account for:

- The forgiveness or waiver of lease payments as a variable lease payment. The lessee would therefore derecognise that part of the lease liability that has been extinguished by the forgiveness of lease payments with a corresponding credit in profit or loss, the timing of which will depend on the facts and circumstances
- A change in lease payments that reduces payments in one period but proportionally increases payments in another (such that there is no change to the overall consideration for the lease and only the timing of individual payments changes), by continuing to recognise interest on the liability and reduce that liability for payments made to the lessor. This will necessitate a recalculation of the amortisation table using the original discount rate.

In April 2021, AASB issued AASB 2021-3 *Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions beyond 30 June 2021*. This amendment extends to the application of the above-mentioned practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

Cloud computing – Software-as-a-Service (SaaS) arrangements

Accounting for implementation costs

In March 2019, the IFRIC first considered the accounting requirements for SaaS arrangements and concluded that for many such arrangements the substance is that the entity has contracted to receive services rather than the acquisition (or lease) of intangible software assets. This is because, in a cloud-based environment, the SaaS contract generally only gives the customer the right to receive access to the cloud provider's application software, rather than a license over the intellectual property i.e. control over the software code itself.

The IFRIC also recently considered the impact of this conclusion on the accounting for implementation costs (i.e. the configuration and customisation costs) associated with such arrangements in its agenda decision published in April 2021. It concluded that these costs should be expensed unless they meet the criteria for separate asset recognition. This decision may have a significant impact on many entities, in both the private and public sectors, irrespective of size and industry. Where a change in accounting policy is required resulting from the agenda decisions, comparative financial information will need to be retrospectively restated to derecognise previously capitalised costs, where material, in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Further guidance

To understand the accounting for SaaS arrangements in depth, see our *Clarity in financial reporting* publication, Software-as-a-Service arrangements (available at www.deloitte.com).

AASB 2021-1 Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities

Comparative information relief for Tier 2 NFP entities early adopting AASB 1060

On 15 April 2021, the AASB issued AASB 2021-1 which provides limited optional comparative information relief for NFP entities early adopting AASB 1060 (i.e. for reporting periods beginning before 1 July 2021) by transitioning from either Tier 1 or Tier 2 – Reduced Disclosure Requirements to Tier 2 – Simplified Disclosures.

This amendment provides optional relief from presenting comparative information in the notes to the financial statements where the entity did not disclose the comparable information in its most recent previous Tier 1 or Tier 2 general purpose financial statements (GPFS).

Further guidance

We have produced a NFP specific Appendix to Deloitte's Tier 2 Simplified Disclosures model financial statements illustrating the disclosures for NFP entities preparing Tier 2 GPFS in accordance with AASB 1060. These model financial statements are available at www.deloitte.com.

ACNC legislative review

In February 2021, the Federal Treasury issued a consultation paper seeking views on increasing financial reporting thresholds for ACNC registered charities. On 30 June 2021, the Treasury announced the revised ACNC financial reporting thresholds along with some new disclosure obligations for charities. The ACNC will work with the charity sector to develop appropriate guidance and education resources to allow the sector to easily understand and meet these new reporting requirements.

New ACNC reporting thresholds

The revised ACNC financial reporting thresholds will be effective for the 2021-22 financial year onwards in the 2022 and later Annual Information Statements subject to the relevant legislation being passed. The table below provides a comparison between the current thresholds and the newly announced thresholds:

Charity size	Revenue threshold	
	Current threshold	**Revised threshold**
Small	Less than $250,000	Less than $500,000
Medium	$250,000 or less than $1 million	$500,000 or less than $3 million
Large	$1 million or more	$3 million more

New disclosure requirements for ACNC charities

Key management personnel compensation disclosures – large charities only

For the 2021-2022 financial year onwards, large charities with two or more key management personnel will be required to report remuneration paid to responsible persons (directors) and senior executives on an aggregated basis in their 2022 and later Annual Information Statement.

Related party transaction disclosures – all charities

For the 2022-2023 financial year onwards, all charities will be required to report related party transactions in their 2023 and later Annual Information Statements to the ACNC. This is aimed to increase transparency of transactions with related people or organisations that pose a higher risk of conflict of interest.

ACNC 'best practice' guidelines on financial reporting disclosures

Recommended disclosures in respect of government revenue

The Australian Charities Report 2018 shows that nearly half of the revenue in the charity sector comes from government. To help charities provide information that is useful, informative and consistent, and to encourage transparency and accountability, the ACNC recommends 'best practice' disclosures for government funds in an annual financial report.

These recommendations are based on the ACNC's financial reporting scaffolding strategy which states the ACNC decisions regarding financial reporting should be made with the interest of users of financial reporting as a priority. However, the recommended disclosures are not intended to replace the existing disclosure requirements under the Australian Accounting Standards.

The main recommended disclosures of government funding in a charity's annual financial report are as follow:

Recommendation	Details
Disclose information about the source of government revenue	Where a charity receives 10% or more of its total revenue from government, the charity should disclose the following information about the sources of its government revenue: • The total revenue it received by each level of government • The names of the government departments or agencies from which it received revenue (up to 10), as well as the total amounts it received from each • The revenue from providing goods and services to beneficiaries if the revenue, although not directly received from government, is ultimately funded by government (e.g. payments from the National Disability Insurance Agency). These disclosures are only recommended if the information is readily available or easily accessible by preparers. The ACNC encourages charities to disclose this information in the notes to the financial statements.
Disclose economic dependency on government revenue	Where a charity is dependent on government for significant revenue or financial support, it should include an economic dependency note in its financial statements. Economic dependency disclosures show users when a charity is significantly reliant on government funding, and the consequences of it no longer receiving that funding. It should also include the assessment from the charity's management of the likelihood that this economic support for the charity will continue. A charity should consider also disclosing the judgements and assumptions made by its management when considering its economic dependency.
Disclose funding received from government but not yet recognised as revenue	Where a charity prepares Special Purpose Financial Statements and does not make the disclosures required by AASB 15 and AASB 1058, the charity is recommended to disclose funding from government that has been received but not yet recognise as revenue. If revenue received in advance is presented as a liability balance and consists of government revenue for which the charity has not yet satisfied performance obligations, the ACNC recommends the charity to disclose this separately from other revenue received in advance in a liability note (if it is not presented elsewhere in the financial statements). ACNC also recommend that the total amount of funding received from government during the year is shown as a separate line item in the Statement of Cash Flows.

Further information

For more details on the best practice disclosure, refer to ACNC's Annual Financial Report Disclosures – Best Practice.

Conclusion

The constant developments in the business environment and accounting standards continue to provide challenges in financial reporting for NFP entities. The need for careful consideration of the issues arising from the application of recently issued standards is evidenced by the guidance issued by the AASB and the agenda decision of the IFRIC in respect of SaaS arrangements. We encourage entities to be vigilant in their assessment of accounting issues during the 30 June 2021 reporting season.

In addition to the accounting aspects, NFP entities are also encouraged to adopt the ACNC best practice guidance around government revenue disclosures in preparing their reporting for June 2021. For charities where government funds are a significant source of revenue, the recommended best practice disclosures will help these charities provide important information to users of their annual financial report.

Looking ahead, NFP entities should keep in mind the new ACNC reporting thresholds that will be effective for the 2021-2022 financial year and the new disclosure obligations for charities, e.g. key management personnel compensation disclosures and related party transaction disclosures which are required for the 2021-2022 and 2022-2023 financial years respectively.

Contacts

Eidth Ranjit
Manager
eranjit@deloitte.com.au

Maybelle Chia
Director
machia@deloitte.com.au

Clive Mottershead
Partner
cmottershead@deloitte.com.au

Alison White
Partner
aliswhite@deloitte.com.au

Anna Crawford
Partner
acrawford@deloitte.com.au

Henri Venter
Partner
hventer@deloitte.com.au

Moana Overton
Partner
moverton@deloitte.com.au