

Factsheet

September 2020

Changes to Accounting Standards

This factsheet outlines the impact of pending accounting standard changes and the NSW Registrar's response to these changes

Background

As noted on the Australian Charities and Not-for-profits Commission (ACNC) website and in previous NRSCH communications changes have been made to the accounting standards which will be impacting on the community housing sector. These changes were announced by the Australian Accounting Standards Board (AASB) in late 2016.

These changes include:

- AASB 15 Revenue from Contracts with Customer will replace AASB 118 Revenue, AASB 111 Construction Contracts
- AASB 16 Leases will replace AASB 117 Leases
- AASB 1058 Income of Not for Profit Entities will replace AASB 1004 Contributions.

Possible Impact on CHP's Financial Results

These changes to the accountings standards will have an effect on statutory financial reports that community housing providers produce with the nature of individual community housing provider's operations also determining how the changes will be applied. It is also acknowledged PowerHousing Australia has worked with their members to drive an industry wide review of the impact of accounting changes on the community housing sector.

In general the accounting changes could affect community housing providers in the following ways.

AASB 15 Revenue from Contracts with Customer: This change specifies how and when revenue should be recognised as well as requiring more informative and relevant disclosures. The standard also requires additional disclosures in respect of the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This change could mean in some circumstances contract income could now be recognised as the community housing providers carry out the obligations of a contract when previously the contract amount was recognized upfront. However how this is applied in practice depends on the nature of each contract.

AASB 16 Leases: This standard abolishes the distinction between finance and operating leases and requires that most leases now appear on community housing provider's balance sheet. However many providers are interpreting that agreements in respect to social housing are considered to be outside of the scope of AASB 16 given that they are properties owned and controlled by the government and therefore considered to be service concession arrangements accounted for under IFRIC 12. However AASB 16 will affect providers who have motor vehicle leases or private market leases for things like affordable housing properties or office space.

AASB 1058 Income of not-for-profit entities: In terms of accounting principles in many ways this is an extension of AASB 15. However this standard may also require volunteer work to be recognised as income and to recognised transactions as income where an acquired asset is significantly less than its fair value.

Impact on Viability

The NSW Registrar acknowledges while the accounting change will have an effect on the reported financial results of community housing providers it does not alter their financial risk in any way.

On the evidence supplied to the NSW Registrar community housing providers are taking appropriate measure to ensure compliance with these new standards with some community housing providers deciding to become early adopters.

The impact of the new accounting standards will be different for every provider.

Regulatory Response

The NSW Registrar has extensively communicated with the community housing sector, other state jurisdictions and the Department of Communities and Justice (DCJ) to ensure a consistent regulatory response that minimises the burden on community housing providers.

Modifications have been finalised in the latest NRSCH Financial Performance Report (FPR) that capture the accounting changes. The financial ratios in the new FPR can be adjusted to take into account the impact of the accounting changes and to ensure historical consistency in financial assessments.

There are a number of benefits to note with the changes to accounting standards; transparency in accounting records, reduction in balance sheet items and proper transaction recognition.

It should also be noted that the NSW Registrar is not providing this factsheet as accounting advice, which while fairly accurate, may not be relevant to your organisation. This is provided as guidance and the NSW Registrar acknowledges providers have been active in taking the steps required to update their accounting mechanisms to become compliant with the changes.

Further Information

Please visit the NRSCH website at:

<https://www.nrsch.gov.au/publications/financial-reporting-guidance>

Please visit ACNC's website at:

<https://www.acnc.gov.au/for-charities/manage-your-charity/accounting-standards-changes-and-your-charity>

FURTHER INFORMATION

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