

Australian illustrative examples for not-for-profit entities

These illustrative examples accompany, but are not part of, AASB 15. They illustrate aspects of the Australian guidance for not-for-profit entities in AASB 15, but are not intended to provide interpretative guidance.

IE1 The following examples portray hypothetical situations. They are intended to illustrate how a not-for-profit entity might apply some of the requirements of AASB 15 *Revenue from Contracts with Customers* to particular types of transactions, on the basis of the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying AASB 15.

Identifying performance obligations (paragraphs F20–F27)

IE2 Examples 1 and 2 illustrate the requirements of AASB 15 for identifying whether a transaction or agreement involves a performance obligation in a contract with a customer.

IE3 For a performance obligation to exist, there must be an enforceable agreement with sufficiently specific promises to transfer goods or services to or on behalf of the other party to enable assessment of whether the performance has occurred, ie whether the obligation has been satisfied. Further examples are provided in AASB 1058 of transactions or agreements where the performance obligation is not sufficiently specific.

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Example 4—Research activities—Transfer of research findings

Example 4A – Enforceable agreement, sufficiently specific performance obligation, research data only

Research Institute C receives a cash grant from a donor, Marine Sanctuaries Trust M, of \$5.3 million to undertake research that aims to track whale migration along the eastern coast of Australia.

The terms of the grant are:

- a period of three years;
- the return of funds that are either unspent or not spent in accordance with the agreement;
- publication of research data on a public website as it is obtained, so that any researchers can use the data;
- the IP arising from the research is neither transferred to nor licensed to donor M;
- annual progress reports and a final report are required;
- Institute C may publish research results in conference presentations and/or scholarly journals, retaining the copyright to such results; and
- the institute has an explicit right to payment for the research services completed to date if the agreement is terminated.

Institute C concludes that the arrangement is a contract with a customer as defined in AASB 15 on the basis that:

- Institute C's promise of specified research is enforceable as the grant is refundable if the research is not undertaken;
- the institute identifies its promise to undertake the research and publish the research data is sufficiently specific and represents a single performance obligation; and
- the undertaking of the research and publication of the data will represent services provided to the donor, as it is a beneficiary of the research even though the research data is publicly available.

Accounting treatment

In accordance with AASB 15, Institute C allocates the cash grant to its identified performance obligation and recognises the financial asset (cash) and a contract liability of \$5.3 million on initial recognition.

Institute C concludes that the performance obligation is satisfied over time as the donor simultaneously receives and consumes the benefits of the research services as they are performed (paragraph 35(a)). This is on the grounds that ~~another entity would not need to substantially re-perform the research completed to date by the institute if that other entity were to fulfil the remaining performance obligation to the donor~~

~~(paragraph B4) as the research data is made public as it is collected, and thus available to any replacement researchers.~~

Accordingly, the institute recognises revenue over time as it satisfies the performance obligation. The institute elects to measure its progress towards complete satisfaction of the performance obligation on the basis of research data published.

Example 4B – Enforceable agreement, sufficiently specific performance obligation, research data and assessment only

In this example, the facts of Example 4A apply, except that:

- the grant requires Research Institute C to prepare interim and final reports analysing the tracking data obtained;
- publication of the research data is required at the conclusion of the research, rather than contemporaneously;
- the IP arising from the research is neither transferred to nor licensed to donor M; and
- the institute is restricted from readily directing the tracking information and analysis for another use of the institute.

Institute C concludes that the arrangement is a contract with a customer as defined in AASB 15, on the same basis as set out in Example 4A.

Accounting treatment

In accordance with AASB 15, Institute C allocates the cash grant to its identified performance obligation and recognises the financial asset (cash) and a contract liability of \$5.3 million on initial recognition.

Institute C concludes that the donor does not simultaneously receive and consume the benefits of the research services as they are performed, ~~since the research data is not published until the conclusion of the research. This is on the grounds that another entity would need to substantially re-perform the research completed to date by the institute if that other entity were to fulfil the remaining performance obligation to the donor.~~ Furthermore, the performance of the research activities results in the accumulation of knowledge, which is an (unrecognisable) asset developed by the researcher but not immediately consumed. Therefore, paragraph 35(a) is not satisfied.

As the donor does not obtain the IP under the agreement, Institute C determines that its research does not create or enhance an asset that donor M controls as the asset is created or enhanced. Therefore, paragraph 35(b) is not satisfied.

Institute C notes that its research performance does not create an asset with an alternative use to the entity due to the restrictions in the agreement regarding directing the research to another use. Institute C also notes that it has an explicit, enforceable right to payment for performance completed. Therefore, paragraph 35(c) is satisfied.

Accordingly, Institute C concludes that the performance obligation is satisfied over time and recognises revenue over time as it satisfies the performance obligation. The institute elects to measure progress on the basis of the amount it would be entitled to receive for its performance to date, which corresponds with the value of the performance to the customer.

Example 4C – Enforceable agreement, sufficiently specific performance obligation, research data and assessment only

In this example, the facts of Example 4B apply, except that Institute C is able to utilise the research it performs for any other use of the institute. Institute C concludes that the arrangement is a contract with a customer as defined in AASB 15, on the same basis as set out in Example 4A.

Accounting treatment

In accordance with AASB 15, Institute C allocates the cash grant to its identified performance obligation and recognises the financial asset (cash) and a contract liability of \$5.3 million on initial recognition.

Institute C concludes that the donor does not simultaneously receive and consume the benefits of the research services as they are performed, on the same basis as set out in Example 4B. Therefore, paragraph 35(a) is not satisfied.

Institute C determines that its research does not create or enhance an asset that donor M controls as the asset is created or enhanced, on the same basis as set out in Example 4B. Therefore, paragraph 35(b) is not satisfied.

Moreover, the institute notes that it is able to utilise the research it performs for any other use it determines. This is on the grounds that the institute has no contractual or practical limitation on its use of the research,

Commented [XK1]: Staff note to the Board:

As in this example it is clear that donor simultaneously receives and consumes the benefits of the research activities as they are performed, assessment of paragraph B4 requirement is not required and in fact is misleading.

Commented [XK2]: Specific question to the Board:

Do the Board members agree with the proposed amendments to the Illustrative Example 4A?

Commented [XK3]: Specific question to the Board:

Do the Board members agree with the proposed amendments to the Illustrative Example 4B?

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including having the ability to sell the research to another customer. Therefore, the institute's performance does create an asset with an alternative use to the entity, and paragraph 35(c) is not satisfied.

Accordingly, Institute C concludes that the performance obligation is satisfied at a point in time (the end of the grant period) and recognises revenue at the conclusion of the agreement, when it satisfies the performance obligation.