

DRAFT STAFF FAQs

Accounting for research grants received by NFP entities

How does a NFP entity that receives a research grant determine whether there are sufficiently specific performance obligations under AASB 15?

Given the uncertainties inherent in research, the findings from research typically cannot be known in advance and therefore a specific outcome cannot be promised at the outset of a research grant agreement. For this reason, the agreement—which includes the schedule that outlines the research activity—is instead specific in terms of the objectives of the research and how the research will be conducted (ie specificity about inputs and processes).

From a revenue recognition perspective, the focus is on whether:

- the research entity has promised to transfer goods or services (eg outputs from the research) to the grantor or to other parties on behalf of the grantor; and
- that promise is sufficiently specific such that it can be determined when the research entity has satisfied its obligation to transfer those goods or services.

Both factors must be present in order for the research entity to identify performance obligations in the agreement, which would mean that the agreement is within the scope of AASB 15 *Revenue from Contracts with Customers*. If one or both factors are not present, the agreement will instead be within the scope of AASB 1058 *Income of Not-for-Profit Entities*.

The following table lists the possible outputs or other rights that a grantor might be entitled to under a research grant agreement:

	Nature of output/right	Sufficiently specific performance obligation?
1	Financial reports	No – the requirement to submit to the grantor financial statements and acquittal statements are specific as to type (eg format and content) and frequency, but these statements do not represent a good or service that transfers to the grantor. The benefit that the grantor obtains from this reporting is related only to the research entity discharging its accountability for the grant funding received.
2	Progress reports	No – typically the content of the report is brief and does not communicate information about the findings from the research performed to date. The benefit that the grantor obtains from this reporting is related only to the research entity discharging its accountability for the grant funding received.
3	Final report	No – same as a progress report, unless the report provides research findings in some form.
4	Any other report on the research activity requested by the grantor	No – same as a progress report and a final report. The focus of the reporting is on discharging accountabilities rather than on communicating information on the research findings in sufficient detail for the recipient to be able to obtain any substantive benefit from that information.
5	Access to personnel, premises, information and research material	No – the purpose of this right is to manage risks associated with the research project rather than to provide access that would enable the grantor to obtain a benefit from the research itself.
6	Licence to IP relating to “research material”	No – the licence is to research material, which is defined as the project proposal and summary, progress reports and final reports. The nature of the research materials (as defined by the agreement) do not include the underlying research data, findings or publications created from

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		that data. The focus of the licence is on discharging accountabilities rather than on communicating information on the research findings.
7	Intellectual property created from research	Yes – see Chart 1 in research grant flowchart
8	Licence to the IP	Yes – see Chart 2 in research grant flowchart
9	Research findings (including publications)	Yes – see Chart 3 in research grant flowchart. Further analysed in the following Scenarios 1 and 2.

FAQ Scenario 1A – Enforceable agreement, performance obligation not sufficiently specific, no contract with a customer

University C receives a cash grant from a donor, XXX, of \$XXX million to undertake research that aims to XXX. University C receives the cash grant upon signing the contract.

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;
- the grant does not specify whether and when the researcher will publish any research findings;
- University C is able to utilise the findings from the research it performs for any other use of the university (eg able to use the research findings and data for teaching purposes)
- the “research material” is licensed permanently to the donor on a non-exclusive basis at the commencement of the agreement – the research material comprises the project proposal and summary, annual progress reports and a final report;
- the IP arising from the research is not transferred to the donor; and
- the university has an explicit right to payment for the research services completed to date if the agreement is terminated.

In addition, the university has the practice of publishing research findings (eg publishing research data and/or analysis).

University C notes that the arrangement is enforceable as the grant is refundable if the research is not undertaken. However, University C concludes its arrangement with the donor is not a contract with a customer as defined in AASB 15. This is on the basis that:

- the nature of “research material” (as defined in the agreement) does not include the underlying research data, findings or publications created from that data. The focus of the reports is on discharging accountabilities rather than on communicating information derived from the research. As a result, the licence of the research material is not considered to be substantive; and
- although the university has a practice of publishing research findings, there is a lack of specificity about if and when such research findings will be published. As a result, the implied promise to publish is not sufficiently specific because of the difficulty in determining when the obligation would be satisfied.

Accordingly, the university concludes that the arrangement is not within the scope of AASB 15 and instead would be accounted for under AASB 1058 *Income of Not-for-Profit Entities*.

Accounting treatment

University C recognises a financial asset (cash) of \$XX million for the cash grant received and recognises any related amounts arising under other Australian Accounting Standards in accordance

with AASB 1058. Any excess of the financial asset over the related amounts would be recognised as income.

The fact that the university must return the funds that are either unspent or not spent in accordance with the agreement does not by itself give rise to a provision under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* because the entity can avoid a repayment by spending the money in accordance with the agreement. As a result, a provision cannot be recognised until such a breach has occurred. The restriction on how the grant monies must be spent is not sufficiently specific of itself to create a constructive obligation. A specified time period for the use of the grant is also not a basis for recognising an obligation. Consequently, University C recognises \$XX million as income in accordance with AASB 1058 upon recognition of the financial asset in accordance with AASB 9 *Financial Instruments*.

FAQ Scenario 1B – Enforceable agreement, performance obligation not sufficiently specific, no contract with a customer

In this case, the facts of Scenario 1A apply, except that the grant is payable in accordance with a payment schedule that reflects agreed research milestones.

University C concludes that the arrangement is not a contract with a customer as defined in AASB 15 on the same basis as set out in Scenario 1A.

Accounting treatment

University C recognises a financial asset (receivable or cash) of \$XX million in accordance with AASB 9 when the university has an unconditional enforceable right to receive cash under the arrangement, which could be the case either upon signing the agreement or over time as the research is undertaken or as expenditures are incurred.

University C would have an unconditional enforceable right to receive cash upon signing the contract only when the following conditions are met:

- the contract cannot be terminated by the donor, with the exception of termination due to a breach by the university; and either
- all of the research milestones are within the control of the University; or
- there are no agreed milestones (ie no conditions outside the control of the university are required to be met to receive payments).

In such circumstances, University C recognises a financial asset at the present value of the receivable, and income, upon signing the contract as there is no sufficiently specific performance obligation to be delivered by the university.

If the arrangement includes conditions that are outside the control of University C, such as the donor having the ability to terminate the research depending on the results obtained, University C recognises a financial asset on the earlier of the receipt of grant payments from the donor or the incurrance of eligible research expenditure. The university also recognises any related amounts arising under other Australian Accounting Standards in accordance with AASB 1058. Any excess of the financial asset over the related amounts would be recognised as income.

FAQ Scenario 2A – Enforceable agreement, sufficiently specific performance obligation, research data and assessment only

University C receives a cash grant from a donor, XXX, of \$XXX million to undertake research that aims to XXX.

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;
- the grant refers to the university's policy that requires the publication of research findings (including research data) at the end of each year on the university's website;
- University C is able to utilise the research it performs for any other use of the university (eg able to use the research findings and data for teaching purposes);
- the "research material" is licensed permanently to the donor on a non-exclusive basis at the commencement of the agreement – the research material comprises the project proposal and summary, annual progress reports and a final report;
- the IP arising from the research is not transferred to the donor;
- the university has an explicit right to payment for the research services completed to date if the agreement is terminated.

In addition, the university has the practice of publishing research findings in accordance with its policy (eg publishing research data and/or analysis).

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

- University C's promise of specified research (including the publication of findings) is enforceable as the grant is refundable if the research is not undertaken; and
- the university identifies its promises to publish research findings (including research data) annually on its website as sufficiently specific promises that represent a series of performance obligations that transfer the research to the donor or third-party beneficiaries. The promises are sufficiently specific on the basis that the policies attached to the research grant specify the nature of the material (research findings (including research data)) to be published and a timeframe for the publication to occur (ie publication at the end of each of the three years). The university's practice of publishing research findings annually creates a valid expectation that the publications will eventuate.

Accounting treatment

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

University C concludes that the donor does not simultaneously receive and consume the benefits of the research services as they are performed. This is on the grounds that performance of the research activities results in the accumulation of knowledge, an (unrecognisable) asset that is not immediately consumed. Therefore, paragraph 35(a) is not satisfied.

The donor does not obtain the IP under the agreement, nor does the donor control the knowledge accumulated as research activities are carried out. As a result, University C determines that its research does not create or enhance an asset that the donor controls as the asset is created or enhanced. Therefore, paragraph 35(b) is not satisfied.

Moreover, the university notes that it is able to utilise the research it performs for any other use it determines. This is on the grounds that the university has no contractual or practical limitation on its use of the research, including having the ability to sell the research to another party. Therefore, the university's performance does create an asset with an alternative use to the entity, and paragraph 35(c) is not satisfied.

Accordingly, University C concludes that the performance obligations are satisfied at points in time (the end of each year, when the research findings to date are published) and recognises the related revenue at the end of each year.

FAQ Scenario 2B – Enforceable agreement, sufficiently specific performance obligation, research data and assessment only

In this case, the facts of Scenario 2A apply, except that:

- the university's policy requires the publication of research findings (including research data) on the university's website annually, except when patents are being sought;
- University C believes that the research may have commercial benefit and intends to defer the publication of research findings until patent applications are determined; and
- University C is able to utilise the research it performs for any other use of the university.

University C concludes that the arrangement is a contract with a customer as defined in AASB 15 on the same basis as Scenario 2A.

Accounting treatment

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

University C concludes that the donor does not simultaneously receive and consume the benefits of the research services as they are performed. This is on the grounds that performance of the research activities results in the accumulation of knowledge, an (unrecognisable) asset that is not immediately consumed. Therefore, paragraph 35(a) is not satisfied.

The donor does not obtain the IP under the agreement, nor does the donor control the knowledge accumulated as research activities are carried out. As a result, University C determines that its research does not create or enhance an asset that the donor controls as the asset is created or enhanced. Therefore, paragraph 35(b) is not satisfied.

Moreover, the university notes that it is able to utilise the research it performs for any other use it determines. This is on the grounds that the university has no contractual or practical limitation on its use of the research, including having the ability to sell the research to another party. Therefore, the university's performance does create an asset with an alternative use to the entity, and paragraph 35(c) is not satisfied.

Accordingly, University C concludes that the performance obligations are satisfied at a point in time (most likely to be deferred to a later point in time when the University decides to publish the data) and recognises revenue when the research data are published or at the end of the research project if a patent is granted, when it satisfies the performance obligation.