Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Post-Implementation Reviews**	**Meeting:**	M200
Topic:	**Income of Not-For-Profit Entities – Capital grants**	**Agenda Item:**	7.3
		Date:	13 November 2023
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		Decision-Making:	Low
		Project Status:	Initial consideration of stakeholder feedback

Objective of this paper

1 The objective of this Staff Paper is for the Board to:

(a) **consider** the feedback received on Topic 2: Capital grants included in ITC 50 *Post-implementation Review – Income of Not-for-Profit Entities* (ITC 50); and

(b) **discuss** the feedback, staff analysis and preliminary views in relation to ITC 50 Topic 2. The Board will not be asked to make any decisions at this meeting but rather to provide feedback and suggestions for further analysis. Following the discussion staff will develop recommendations and ask the Board to decide on possible next steps[1] at a future meeting.

Structure

2 This paper is structured as follows:

(a) Background (paragraphs 3 to 10)

(b) Analysis of respondents' feedback (paragraphs 11 to 44)

(c) What the AASB has done so far (paragraphs 45 to 61)

(d) Staff analysis and preliminary views (paragraphs 62 to 102)

Background

3 Where a not-for-profit (NFP) entity is a party to a transaction that includes a transfer to enable the entity to acquire or construct a recognisable non-financial asset to be controlled by the entity, AASB 1058 *Income of Not-for-Profit Entities* paragraph 16 requires the entity to recognise a liability for the excess of the fair value of the transfer over any related amounts recognised and to recognise

1 See Agenda Paper 7.1 *Cover Memo* Appendix A: Post-implementation review decision-making process and Appendix B: Possible responses to PIRs.

income as it satisfies its obligations under the transfer. Such transfers are often referred to as “capital grants.”

4 In accordance with AASB 1058 paragraphs 15 to 17, a transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset for its own use is one that:

(a) requires the entity to use that financial asset to acquire or construct a non-financial asset to **identified specifications** (emphasis added);

(b) does not require the entity to transfer the non-financial asset to the transferor or other parties; and

(c) occurs under an enforceable agreement.

5 Illustrative Examples 9 and 10 attached to AASB 1058 illustrate two different revenue recognition patterns for such transfers. Both of those examples assume that the ‘identified specification’ criterion is met. However, there are likely many possible variations where judgement will be required to determine whether that criterion is met.

6 ITC 50 included seven example obligations that could be included in a contract and concluded whether the contract had ‘identified specifications’ as required by AASB 1058 paragraph 15(a).

Obligations of the contract	**Does the contract require the entity to use the financial asset to acquire or construct a recognisable non-financial asset to ‘identified specifications’ as required by AASB 1058.15(a)?**
(a) A hospital receives a cash grant to acquire 16 intensive care hospital beds.	Yes. The agreement specifies the quantity and type of beds to be acquired.
(b) A school receives a cash grant to build an early learning (EL) centre on the entity’s land to the standard specified by government regulations applicable to EL programs. The EL centre must include two rooms.	Yes. The entity must build an EL centre with at least two rooms on the entity’s land and the EL centre must be built to regulations required by the government.
(c) A school receives a cash grant to build an EL centre on the entity’s land to the standard specified by government regulations applicable to the EL programs.	Likely to meet the identified specifications requirement. While there is detail regarding the location of the EL centre and the requirement for it to be built to government regulations, there is no detail about the size or composition of the EL centre. However, the importance of specificity about the size or composition of the EL centre is a matter of judgement.

Obligations of the contract	Does the contract require the entity to use the financial asset to acquire or construct a recognisable non-financial asset to 'identified specifications' as required by AASB 1058.15(a)?
(d) A school receives a cash grant to build an EL centre to the standard specified by government regulations	Unclear. While there is detail regarding an EL centre being built to government regulations, there is no detail about the location, size or composition of the EL centre. The importance of specificity about the EL centre's location, size or composition is a matter of judgement.
(e) An NFP entity with a single objective receives funding to construct a building to perform its operations.	Unclear. The entity will need to use judgement to determine whether the identified specifications criterion is met. Depending on the circumstances of the entity, such as a narrow or broad entity objective, additional detail may be required.
(f) A local council receives a government grant to build roads.	No. While there is detail about the purpose of the grant, there is no detail about the location of the roads, the length of the roads, minimum construction standards and the expected timing of construction. Therefore, the contract is not considered to meet the identified specifications criterion.
(g) An NFP entity receives a cash grant to construct a building.	No. The agreement does not meet the identified specifications criterion as there is no detail about the location or size of the building, minimum construction standards and the expected timing of construction.

7 As summarised in Agenda Paper 3.2.1 (October 2023), when developing ITC 50, stakeholder feedback suggested that because there is no guidance to explain how specific the 'identified specifications' need to be for a contract to meet the requirement of AASB 1058 paragraph 15(a), there are divergent views about how much detail is required. Further, whether the 'identified specifications' criterion is met affects the accounting and associated revenue recognition for such transactions, with the result that differences in practice in applying the criterion may decrease the comparability of NFP entities' financial statements.

8 ITC 50 asked the following questions on capital grants:

Questions for respondents

Regarding the term identified specifications in AASB 1058 paragraph 15(a), do you have any comments about:

5. *the application of the term in practice?*

6. *the extent of specificity needed for a contract to meet the requirements of AASB 1058 paragraph 15(a)?*

7. *whether differences in application exist because of the use of the term identified specifications?*

If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

8. *In addition to the existing illustrative examples in AASB 1058, is there any other guidance that would help you determine when to recognise revenue following the transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity? If so, please provide details of the guidance and explain why you think it would be useful.*

9 Following the issue of the ITC, during the outreach phase of the post-implementation review (PIR), staff actively engaged with stakeholders to seek feedback on this topic.[2] In addition to formal comment letters being submitted, stakeholders could also provide feedback on this topic via a survey and discussion during the various roundtable events held by staff. Stakeholders were also invited to discuss the topic further during one-on-one meetings with staff where they requested this.[3]

10 This Staff Paper is part of the 'feedback and next steps' phase of the PIR process. Appendix A and B of Agenda Paper 7.1 sets out the framework to support the Board in considering stakeholder feedback and determining what action, if any, may be required.

Analysis of respondents' feedback[4]

ITC 50 questions 5 to 7: Application of the term identified specifications in practice, the extent of specificity required and differences in application

Judgement required with potential flow-on impact on comparability

11 Five out of seven stakeholders that provided written comments relating to capital grants (Pitcher Partners (PP), ACAG, RSM, Deloitte and HoTARAC) commented on the interpretation, complexity and significant judgement required to determine whether the 'identified specifications' criterion is met given the term is not defined in AASB 1058 and there is limited guidance (Illustrative Examples 9 and 10).[5] This may impact the comparability between NFP entities:

(a) PP commented this requirement seems to be over and above that required for for-profit entities where the term does not exist; and

(b) ACAG commented differences in application are likely to arise given the judgement involved in determining how specific the requirements need to be in relation to the size, composition or location of the asset to meet the criterion. For example, one jurisdiction has had the occasional misinterpretation of 'identified specifications' due to the application being applied using a common English meaning rather than the technical application of AASB 1058.

2 See Agenda Paper 3.2.0 *Income of Not-for-Profit Entities* (October 2023) for more details.
3 Comment letters can be accessed from the AASB website. Survey responses were presented to the Board at the October 2023 meeting: Agenda paper 3.2.5 *Survey Responses*. A summary of meeting notes was provided to the Board in October 2023 [Board Only].
4 Feedback received from stakeholders at virtual meetings and from those who completed the survey are largely in line with the feedback received in the comment letters. Specific comments from the meetings and survey have been included below where feedback is in addition to the comment letters.
5 Ten out of 15 survey respondents also answered 'yes' to Question 8 'In your experience, have you encountered application issues because of the term identified specifications?' The remaining five answered 'No.' Seven survey respondents skipped the question.

12 HoTARAC commented that the use of the word 'specifications' distracts from income recognition aligning with work-in-progress per AASB 1058 paragraph 16[6] due to the introduction of unwarranted nuance. Furthermore, work-in-progress does not align always with milestone payments. Private sector contracts are typically very detailed and subject to contract variations. In contrast, public sector grant agreements can specifically fund an asset, but it is rare for the agreement to be revised owing to the subsequent variation of agreements detailing revised specifications. As part of its answer to ITC 50 question 8,[7] HoTARAC commented that 'identified specifications' is not a term readily recognisable with other relevant accounting standards for non-financial assets. It generates uncertainty when the intention is to recognise work-in-progress. This is illustrated by the following examples which can be proportionately completed but have vastly differing specifications when completed: power generation centres, construction in progress for social housing, land development under a community service obligation regime, fire trucks or communications networks.

13 HoTARAC further commented that the natural word usage of 'specifications' implies differential equipment levels when acquiring or constructing an asset. For example, a scenario where a grantor stipulates the construction of a vessel and the grantee significantly varies the specifications (perhaps meeting the additional cost to upgrade air/surface radar arrays), should not result in disagreements between preparers and auditors on the point of income recognition. Moreover, terms not explicitly within the contract ought not to generate disagreement either.

14 An NFP Advisory Panel member, at the virtual meeting, commented that judgment to determine 'identified specifications' is not necessarily bad and they would not like to move to a rules-based standard. A certain amount of judgment will need to be accepted. With this specific topic, judgment has not been a big issue in practice.

15 Comments made at the virtual meetings suggest that determining whether an agreement includes identified specifications may be more of an issue for NFP public sector entities than for the NFP private sector entities. However, a NFP Advisory Panel member commented, relating to the practices in the NSW local government, that there were no significant issues in applying these requirements. In most cases, common sense prevailed between preparers and auditors, and income was deferred where it met the identified specifications requirements. An attendee at Roundtable 2, with support from two other attendees, commented that Queensland local governments have a standard agreement with the state government for infrastructure related funding which, in their opinion, identify the assets to be constructed and typically meet the identified specification requirements.

16 Although the term is not defined, other feedback received also indicates application in practice is largely less ambiguous:

(a) where NFPs receive funds for the entity to acquire or construct a non-financial asset, the respective funding agreements (formal plans) typically contain wording which would be considered by most users to meet the 'identified specifications' criterion when assessed by similarly knowledgeable individuals (RSM). An NFP Advisory Panel member commented similarly however said it becomes problematic where cash is received in advance of formal plans being developed;

(b) in BDO's experience, NFP entities apply the term broadly and consistently with the overall objective of AASB 1058 paragraph 15. Accordingly, provided the agreement under which the

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6 AASB 1058 paragraph 16 (emphasis added) states: "An entity shall recognise a liability for the excess of the initial carrying amount of a financial asset received in a transfer to enable the entity to acquire or construct a recognisable non-financial asset that is to be controlled by the entity over any related amounts recognised in accordance with paragraph 9. The entity shall recognise income in profit or loss when (or as) the entity **satisfies its obligations** under the transfer."

7 For ITC 50 question 8 see paragraph 8 above.

financial asset is received specifies that the asset is only to be used to acquire or construct a recognisable non-financial asset (for example, does not provide the entity with a choice between, acquiring an item of property or using the funds to further the entity's NFP objectives), BDO are not aware of any examples of NFP entities failing to account for it applying AASB 1058 paragraph 15 because the agreement does not specify the design features of the non-financial asset;

(c) Deloitte have not experienced differences in application because the capital grant contracts they have seen are for larger funding amounts and contain very specific requirements around the constructed asset/facility. However, Deloitte noted that there may be differences in practice in cases where the contracts are for smaller funding amounts and therefore may only contain a minimum level of asset specifications which may result in the need to apply judgement to make the determination;

(d) one ACAG jurisdiction has applied 'identified specifications' in the context of being able to identify how the funds are being acquitted against the obligation to build the asset. This jurisdiction found that the acquittal provisions in funding arrangements, and usually the associated budgeting and planning approvals, are sufficient to be able to understand what asset is being built;

(e) some ACAG jurisdictions found that grants are generally specific about what must be built. However, ACAG commented that judgement must still be applied. For example, if the funding is to build a performing arts theatre at a school which provides a 500-person capacity, ACAG assume this meets the criteria. However, ACAG questioned whether the 'identified specifications' criterion is met if less detail is provided such as funds to build a performing arts theatre at a particular school. While the capacity is not specified, the school's maximum enrolment capacity is known, and it is reasonable to assume that the theatre appropriately caters for that number of students. Similarly, a survey respondent questioned, if a grant stipulates the specific project and the expected completion date, whether this is specific enough because most agreements they see do not include details about the size and building specifications; and

(f) an NFP Advisory Panel member commented that the issues with capital grants are not as large in comparison to determining what is sufficiently specific applying the requirements of AASB 15 *Revenue from Contracts with Customers* because these contracts are not seen as often.[8] However, when these arise, they attract questions – the examples in the FAQs are used,[9] which are helpful but only to some extent as they are outside the standard. If there is a plan in the agreement for the type of asset that needs to be constructed, then this is enough to meet the 'identified specification' requirements but it is very judgmental.

17 A survey respondent commented that auditors use sufficiently specific to determine whether a contract should be accounted for as a capital grant.

18 Disclosures for funds received that do not meet the 'identified specifications' and therefore recognised upfront, may be used to inform users of the intention of how the funds will be used. For example, an attendee at Roundtable 2 said the South Australian model financial statements require disclosure of how prepayments will be spent.

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8 An attendee at Roundtable 3 suggested that 'identified specification' criterion is easier to determine than the sufficiently specific criterion because sufficiently specific is a broader concept.

9 Details are included in paragraph 54 below.

Assets on own land

19 In BDO's experience, provided the non-financial asset is being constructed on the entity's land (whether owned or leased), preparers and auditors have not required detailed plans. Usually, such grants are made for a specified purpose and provided that purpose is noted in the agreement, this would be considered sufficient to meet the 'identified specifications' requirements. If specific government regulations must be adhered to (for example, building regulations), this would not, by itself, be sufficient. The type of building would need to be described (for example, an early learning centre or school hall).

20 In line with BDO's comments, ACAG commented that some jurisdictions found that funds received are almost always for building assets on state-owned land, so that assists in concluding that the control criteria are met. An attendee at Roundtable 3 (State, Territory and Commonwealth Government) commented similarly.

Feedback on the ITC 50 example obligations

21 PP's and two members at the NFP Advisory Panel meeting's interpretation of ITC 50 examples (c) and (d) (reproduced in paragraph 6 above) was that these would **meet** the 'identified specifications' criterion vis a vis to the ITC 50 conclusion of 'Likely to meet the identified specifications requirement' and 'Unclear.' In relation to (c), PP further explained that this is because it is to be constructed to a standard specified by government regulations applicable to the early learning programs.

22 PP's and two members at the NFP Advisory Panel meeting's interpretation of ITC 50 example (e) was that this would **not meet** 'identified specifications' rather than 'Unclear' since there is no detail on the type/size of the building to be constructed.

23 In contrast to the above, a member at the NFP Advisory Panel meeting commented that they **agreed with** the conclusions included in ITC 50 for examples (c), (d) and (e).

24 PP commented that the differences in their conclusions compared to those outlined in the PIR reveal the significant judgement involved with such a determination and therefore in PP's view this distinction is not effective and needs significant revision. However, PP commented that it is important to consider that entities have interpreted the requirements to the best of their ability (albeit with inconsistent outcomes) and would not want to see substantial changes made that would make it more difficult to apply the standards.

25 An ACAG jurisdiction found the capital grant examples in the ITC simplistic and unrealistic. In practice, the jurisdiction found that where funding/capital grants are given, and there is an obligation on the recipient to spend that money on the construction of an asset under an enforceable agreement, the arrangements have provisions for the acquittal of those funds (i.e. details about what asset is being constructed). Therefore, an obligation is identified, and the 'percentage complete' can be determined.

Illustrative examples

26 ACAG commented that the term identified specifications implies a high degree of specification such as architectural designs. However, Illustrative Example 9[10] in AASB 1058 clarifies that specifying that a building must meet the standards specified by regulation (and includes a set number of rooms) is enough.

Alternatives to 'identified specifications'

27 HoTARAC commented that measuring completion of an obligation per AASB 1058 paragraph B16[11] is achievable by moving from 'specifications' to a variation of the previously defined 'identifiable asset'[12] from AASB 16 *Leases*. Whilst the context behind 'identifiable asset' differs, it is a useful analogy to demonstrate an opportunity to enhance terminology to confirm the objective of AASB 1058 for all users of financial statements.

28 An attendee at Roundtable 3 (State, Territory and Commonwealth Government) suggested 'specified asset' could be used instead.

Interaction of the scope of AASB 1058 and AASB 15

29 An attendee at Roundtable 2 (Local Government) commented that the difference in the criteria applied to capital grants ('identified specifications') and contracts with customers ('sufficiently specific') caused a lot of confusion. For example, a local government might get a road grant for the construction as well as the maintenance of the road. There are two different sets of criteria for the same grant agreement. Clarification on which criteria applies would be helpful.

30 An attendee at Roundtable 1 (NFP private sector stakeholders) commented, from discussions with a financial controller, as part of his research, that the entity received funding that had an income and a capital component - unbundling them has required a lot of time, cost and effort to determine what should be recognised under AASB 15 and what is AASB 1058.

31 An accounting expert in an audit office, during a one-on-one meeting, explained that there are situations where maintenance costs (for which income has been received) are being capitalised and there are no examples in the standard that demonstrate that this should not be how it is accounted for.[13]

Areas of complexity where additional clarification may be required

Funding received before or after work is completed

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10 This example includes a school receiving a cash grant from the State Government to build an early learning centre (ELC) on the school's land to the standard specified by government regulations applicable to early learning (EL) programs for children. The terms of the agreement require the school to construct the ELC to include two rooms for the delivery of the EL programs and retain control of the ELC (as well as other requirements).

11 AASB 1058 paragraph B16: "On initial recognition of the financial asset, the entity recognises the requirement to acquire or construct the recognisable non-financial asset as an obligation and considers whether there are other conditions that give rise to performance obligations that require the entity to transfer goods or services to other entities (which are accounted for under AASB 15). **The obligation to acquire or construct the non-financial asset is accounted for similarly to a performance obligation under AASB 15.** For each obligation, the entity shall determine whether the obligation would be satisfied over time or at a point in time. If an entity does not satisfy an obligation over time, the obligation would be satisfied at a point in time." (emphasis added)

12 AASB 16 paragraph B13 states "an asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer."

13 For example, AASB 116 *Property, Plant and Equipment* paragraph 12 states an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

32 ACAG jurisdictions have experienced complexity in relation to whether the liability (funds received in advance) and asset (unbilled work-in-progress) should be included in the AASB 15 contract asset/liability disclosures, given the link from AASB 1058 to AASB 15 for revenue recognition. In practice, some ACAG jurisdictions (but not all) include the liability under AASB 1058 in the disclosures for contract liability disclosures under AASB 15 with descriptions to differentiate contract liabilities and liabilities under AASB 1058.[14] Similarly, an attendee at Roundtable 3 (State, Territory and Commonwealth Government) commented that for the State Government, the main issue they experienced was in relation to payments in arrears. There are questions about how to recognise this when activities are done before payment.

Inventories

33 ACAG jurisdictions have experienced complexity in relation to whether a grant for the development of inventories to 'identified specifications' (for example, land under development for future sale) can also be in the scope of capital grants under AASB 1058. As part of their response to question 8, some ACAG jurisdictions commented that the AASB should clarify that a grant for the development of inventories to 'identified specifications' (for example, land under development for future sale) can also be within the scope of capital grants in order to get income recognition on a percentage of completion basis. This is because the development cost of such long-term inventories will be recognised as a non-financial asset for its own use by the entity.

34 ACAG considered that the 'for its own use' requirement in paragraph B15[15] of AASB 1058 does not disqualify the inventories because:

(a) the 'recognisable non-financial asset for its own use' terminology was included in AASB 1058 in order to distinguish acquired/constructed assets that would be recognised by the entity as opposed to assets that would be used by other parties (and therefore not recognised by the entity). This is apparent from paragraph B15 of AASB 1058 which states that the 'non-financial asset will be under the control of the entity (that is for its own use) – it will not be transferred to the transferor or other parties'. The entity retains control of the non-financial asset and retains it for its own use as part of its business operations of which inventory is an integral part; and

(b) the term 'own use' in accounting literature is not used exclusively in the context of AASB 116 *Property, Plant and Equipment* to describe an item of property, plant and equipment held by an entity for its own use. The term 'own use' is also used in the context of AASB 9 *Financial*

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14 AASB 1058 paragraph 31: An entity shall disclose the opening and closing balances of financial assets arising from transfers to enable an entity to acquire or construct recognisable non-financial assets to be controlled by the entity and the associated liabilities arising from such transfers, if not otherwise separately presented or disclosed. An entity shall also disclose income recognised in the reporting period arising from the reduction of an associated liability.
AASB 15 paragraph 116: An entity shall disclose all of the following:
(a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;
(b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and
(c) revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).

15 AASB 1058 paragraph B15: "An entity that receives a financial asset, such as cash, in a transfer to enable the entity to acquire or construct a recognisable non-financial asset to be controlled by the entity shall apply the requirements of AASB 9 to that financial asset. The acquisition or construction of the non-financial asset is accounted for separately to the transfer of the financial asset, **in accordance with other Standards**. If the non-financial asset is **not permitted** to be recognised by another Standard (e.g. knowledge or intellectual property developed through research, which cannot be recognised as an asset in accordance with **AASB 138**), paragraphs 15–17 do not apply. The **key criterion** is that the recognisable non-financial asset will be under the control of the entity (i.e. **for its own use**) – it will not be transferred to the transferor or other parties. Therefore, the transfer of the financial asset (or the relevant part) to the entity does not occur under a contract with a customer and is not subject to AASB 15. However, the recognisable non-financial asset could increase the entity's ability or capacity to provide goods or services to other parties pursuant to other transactions, which are separate to the transfer that enabled the entity to acquire or construct the nonfinancial asset for **its own use**." (emphasis added)

Instruments,[16] to describe a contract to buy a non-financial item that can be net settled, as if the contract is a financial instrument, but which is outside the scope of AASB 9 if the contract is for the receipt of the non-financial item for the entity's 'own use'. In this case, the non-financial item for own use is typically a commodity (for example, iron ore) used by the entity in its operations as raw material (accounted for under AASB 102 *Inventories*).

35 HoTARAC also commented that consideration could be given to adding clarity around whether paragraphs 15 and 16 of AASB 1058 are class-dependent for non-financial assets. For instance, a reading of AASB 1058 paragraph 15 and paragraph 102[17] of the *Framework for the Preparation and Presentation of Financial Statements* implies that capital grants may include the construction or acquisition of inventories. However, this is ambiguous in application.

Disclosure of accounting policies

36 An academic from Swinburne University of Technology noted that in preliminary research conducted based on 40 financial statements of Australian universities for the financial year ending 2020-21, the findings showed that:

(a) a university disclosed in its financial statements "Other capital funding (ARC Linkage Infrastructure, Equipment and Facilities Grant) represents grants provided to acquire or construct a recognisable non-financial asset (e.g. land, buildings, infrastructure, plant and equipment) to be controlled by the Group. This falls under AASB1058 and the revenue is recognised over time as the asset is acquired or constructed. Another university disclosed in its financial statements, "The Group received capital grant funding from the State Government as a reimbursement for the costs incurred in constructing the Gippsland High Tech Precinct. Income is recognised as the asset is constructed."

(b) other universities did not provide related information.

ITC 50 question 8: Any other guidance that would help determine when to recognise revenue following the transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity

'Identified specifications'

37 Deloitte commented that the Board should include more guidance around what level of specificity is required to meet the 'identified specifications' criterion. For example, if a grant contract requires an NFP entity to use the funds to construct an aged care facility, would that be considered sufficient or alternatively, would further details such as location, bed numbers, and care levels available be required. Deloitte found the table provided in ITC 50 helpful in considering the assessment of the 'identified specification' criterion.

38 ACAG also requested guidance and examples to address some of the challenges identified.

16 AASB 9 paragraph 2.4: "This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or **usage** requirements." (emphasis added)

17 Paragraph 102: "A financial concept of capital is adopted by most entities in preparing their financial statements. Under a financial concept of capital, such as invested money or invested purchasing power, capital is synonymous with the net assets or equity of the entity. Under a physical concept of capital, such as operating capability, capital is regarded as the productive capacity of the entity based on, for example, units of output per day."

Illustrative Examples and over time versus point in time recognition

39 Two survey respondents commented in relation to more guidance being required in relation to determining the over time income recognition requirements, including whether percentage of completion or actual costs incurred should be used.

40 BDO commented that Illustrative Examples 9 and 10 adequately illustrate the principles for recognising income over time or at a point in time. However, other than referring to AASB 1058 paragraph 16, the answers to these examples do not fully explain why each one is recognised over time or at a point in time.

41 BDO also commented that it may be useful to elevate the comments in AASB 1058 paragraph BC98[18] to the current guidance contained in AASB 1058 paragraph B16 so that preparers understand that the approach for over time versus point in time from AASB 15 should be followed.

No substantial changes

42 PP do not believe that adding more examples or more guidance to explain the current requirements would be useful. As a short-term measure, PP recommended the AASB remove the FAQ document[19] and locate any examples as part of the guidance in the relevant standard.

43 Rather than wholesale changes to the standards as a result of this PIR, PP consider that once the IFR4NPO standard has been finalised, the AASB explores the appropriateness of its adoption in full or in part in Australia for all NFP entities, including those applying Tier 1 and Tier 2 Australian Accounting Standards.[20]

Funding from more than one source

44 ACAG commented that additional guidance is required in situations where an asset is constructed by using funding from more than one source (for example, one or more grants and the entity's own funds) because it is not clear how the funding should be allocated to the construction of the asset. For example, if there is no indication in the agreement which spending should be spent first, it is not clear whether the entity has discretion as to which source it applies first or whether an average percentage of completion should be used across all sources.[21]

What the AASB has done so far

45 As referred to above, AASB 1058 contains the following guidance relating to the accounting for capital grants:

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18 AASB 1058 paragraph BC98: "For avoidance of doubt, the Board decided to identify the accounting that applies to such transfers. In its redeliberations, the Board observed that in such arrangements, in substance, the transferor had intended to transfer a recognisable non-financial asset to the not-for-profit entity. The Board considered that an in-substance transfer of a good for use by the entity itself should not result in income until the recipient has satisfied its obligation to construct or acquire the asset. That is, the **timing of income recognition should reflect the entity receiving the asset directly, rather than the cash to construct or acquire the asset**. Accordingly, the Board decided that the **accounting for such transactions should reflect that of the approach in AASB 15**. However, given the diverse views as to whether AASB 15 applies, the Board decided to specify instead requirements in AASB 1058 to mirror, to the extent appropriate, the accounting that would be achieved had the transaction been accounted for had it been incontestably a contract with a customer within the scope of AASB 15." (emphasis added)

19 Details are included in paragraph 54 below.

20 This was considered as part of Agenda Paper 3.2.2 *Alternative Models* (October 2023).

21 ACAG's comment letter (submission 7) includes a detailed example and relevant questions relating to two separate grants being received for the construction of a building.

(a) paragraphs 15 to 17 and B15 to B17;

(b) Illustrative Examples:

  (i) Example 9 – Cash grant for the construction of a recognisable asset – income recognised over time;

  (ii) Example 10 – Cash grant for the construction of a recognisable asset – income recognised at a point in time; and

  (iii) Example 11 – Cash grant for the development of an unrecognisable asset – immediate income; and

(c) paragraphs BC95 to BC106 (extracts are included above where relevant to feedback received).

Board meeting discussions

Development of AASB 1058 (2016)

46 Staff have reviewed the agenda papers provided to the Board during the development of AASB 1058 and note at the June 2016 meeting,[22] in relation to capital grants, the Board tentatively decided to develop a new principle to clarify the accounting for these arrangements. The principle would express the view that where there is a return obligation and **clear** requirements to build or construct an asset to **specifications** under the grant, and in substance the arrangement is a grant of a non-financial asset, there are obligations attaching to the receipt of the cash and, as such, no revenue is recognised until such a time as the obligations are satisfied. Staff have not identified any specific board discussions from that time about the term 'identified specifications.'

June 2021

47 At its June 2021 meeting, the Board considered an overview of the feedback on several implementation issues which included two issues in relation to capital grants. Stakeholders had noted there is no guidance with the standard or basis for conclusions regarding how specific the 'identified specifications' need to be.

48 Stakeholder feedback indicated there are divergent views on how much detail is required in order for an asset to satisfy the requirements in paragraphs 15 to 17 which allows income to be recognised over the construction period or on acquisition of the asset rather than on receipt of the funds. For example, there may be differing views as to whether an NFP entity with a single objective that receives funding to construct a building to perform its operations meets the 'identified specifications' criterion or not.

49 The second concern raised by the stakeholders in relation to income recognition was that Illustrative Examples 9 and 10 reflect recognition on acquisition of hospital beds and income recognised over time as the early learning centre building is constructed. There are divergent views about whether income relating to construction can always be recognised over the construction period or whether for example, if the building is not on the land owned by the NFP, the income would be recognised once construction is complete.

22 Meeting Minutes June 2016.

50 The Board decided to add a narrow-scope project to its work program to consider the implementation issues raised. The Board noted the short-term nature of the project and observed that several matters raised by the stakeholders will be considered through to NFP Income PIR.[23]

November 2021

51 At the November 2021 meeting, as part of the narrow-scope project, staff recommended educational material to address the two issues as follows:

(a) 'Identified specifications' – discuss the criteria in AASB 1058 paragraphs 15 to 17 and considerations for assessing the requirements, including an example that highlights either end of a spectrum and identifies areas between the two extremes that require the use of judgment. For example, a requirement to 'purchase some assets' would not be considered sufficient to meet the criteria (noting the Board's intention that "an in-substance transfer of a good for use by the entity itself should not result in income until the recipient has satisfied its obligation to construct or acquire the asset" outlined in paragraph BC98, indicating that the transferring entity would have a specific asset in mind). In contrast, the examples in the standard would meet the criteria.

(b) Revenue recognition – including a discussion on AASB 1058 Illustrative Examples 9 and 10 to illustrate a pattern of revenue recognition for those contrasting scenarios and refer the participants to the relevant paragraphs within AASB 1058/AASB 15 to consider the transfer of control.

52 The Board decided that additional educational material should be developed.[24] See the table in paragraph 54 below for the educational session presented by staff.

August 2022

53 At the August 2022 meeting, in considering the drafting of ITC 50, staff recommended:

(a) *to be considered as part of the PIR (reflecting the Board decisions on the issues to date)*: AASB 1058, paragraph 15(a) requires the entity to use the financial asset received to acquire or construct a recognisable non-financial asset to 'identified specifications.' Stakeholders have noted there is no guidance with the standard or basis for conclusions regarding how specific the 'identified specifications' need to be. The Board agreed to include Topic 2: Capital grants in ITC 50; and

(b) *no further work is needed* in relation to divergent views about whether income relating to the construction of an asset can always be recognised over the construction period or whether, for example, if the building is not on the land owned by the NFP, the income would be recognised once construction is complete. Staff noted that this was addressed through the educational material and therefore this matter was not explicitly included in ITC 50.

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23 June 2021 Meeting Minutes.

24 November 2021 Meeting Minutes.

Educational materials

54 The following educational materials have been issued:

Output and Details
AASB Staff FAQs: AASB 15 Revenue from Contracts with Customers, *AASB 1058* Income of Not-for-Profit Entities *and AASB 16* Leases Under section '**14. In relation to accrued income, when should an NFP entity initially recognise an asset in its statement of financial position, and the associated income in its statement of financial position?**' the material focused on the grants, in relation to which an NFP entity has partially but not yet fully performed the activities required under the agreement and the associated asset (e.g. grant funding in cash or other asset) has not yet been received and the guidance included: • depending on the nature of the transaction giving rise to the asset, the associated income is then recognised (and the liability derecognised) when (or as) the entity satisfies its obligations under the grant (which might be immediately, to the extent the obligations have been satisfied at the time the asset was recognised). • FAQ Scenario 1b – Capital grant: an entity receives funding to construct a community health centre in a new regional area that it will control during construction and continue to control and operate after completion. Under the agreement the entity has the right to claim for eligible construction expenditure incurred each quarter and will receive the funds once the claim is submitted and the costs assessed by the grantor to be eligible. In accordance with the requirements of AASB 1058 paragraph 16, the entity determined it had satisfied its obligations under the agreement to the extent of the construction costs of $400 000 (and therefore there was no liability outstanding at the reporting date), the entity recognised income of $400 000 in its statement of financial performance and a capital grant receivable of $400 000 in its statement of financial position for the year ended 30 June 202X. Under section '**10. Why did the Board decide not to extend "capital grant accounting" under AASB 1058 to research grants?**" guidance included: • capital grant accounting applies to arrangements where the donor had intended to transfer a recognisable non-financial asset to the NFP entity for use by the entity itself. In the research grant scenario, as AASB 1058 paragraph BC102 points out, an NFP entity may be provided a grant to conduct research activities, with any detailed research data collected and rights to any commercial use of the data retained by the NFP entity. AASB 138 *Intangible Assets* does not permit research activities to be recognised as an asset. • the Board noted that extending the capital grant accounting to research grants would "create ambiguity in the distinction between a service and a good" because many service contracts arguably give rise to (unrecognisable) knowledge or expertise for the service renderer, an incidental product to the service contract. It would also create confusion as to whether AASB 1058 would allow certain intangible assets to be recognised, where their recognition is otherwise prohibited (AASB 1058, paragraph BC104).
Key facts: Accounting for Income of Not-for-Profit Entities included: • when an NFP entity receives funds to acquire or construct a capital asset which they will control on completion, there is no transfer to external parties and therefore no performance obligation. If the funds are received for an identified asset which is not required to be transferred to another party under an enforceable agreement, then the income can be recognised as or when the asset is acquired or constructed rather than on receipt of cash; • income will be recognised when the asset is acquired or as the asset is constructed. Depreciation will be recognised over the useful life of the asset in accordance with AASB 116 *Property, Plant and Equipment*.
Income of not-for-profit entities: AASB 15 and AASB 1058 – AASB staff education session • included discussion of the requirements of paragraphs 15 to 17 and Illustrative Examples 9 and 10.

Relevant research

55 Staff performed a literature review on the topics to be considered as part of the PIR process.[25] Key implementation issues noted in non-academic research relevant to this topic included that there are inconsistencies in outcomes when applying the standards. For example, capital grants are deferred and operational grants are expensed. No academic research was identified relevant to this topic.

56 Staff have been monitoring related publications and are not aware of any other recent publications on the topic.

IPSAS 47 Revenue

57 Staff note that the recently issued *IPSAS 47* defines a capital transfer as "an inflow of cash or another asset that arises from a **binding arrangement** with a **specification** that the entity acquires or constructs a non-financial asset that will be controlled by the entity" (emphasis added). A capital transfer imposes at least one compliance obligation on the entity (paragraph AG140). A compliance obligation is defined in IPSAS 47 as "an entity's promise in a binding arrangement to either use resources internally for **distinct goods or services** or transfer distinct goods or services to a purchaser or third-party" (emphasis added). Staff note the term specification is not defined in IPSAS 47 however considering that a capital transfer requires at least one compliance obligation which includes distinct goods or services, the need to define the term is reduced. AASB 1058 does not include the compliance obligation requirement.

58 Staff note that in paragraph BC135, the IPSASB considered that some capital transfers may include multiple compliance obligations, one being the acquisition or construction of a capital asset and another being the operation of the capital asset in a particular way for a specified period of time. In these circumstances, the IPSASB decided that the accounting for each compliance obligation should be considered separately in accordance with the nature of each obligation. Staff consider this treatment to be similar to the way in which an entity would be required to account for the capital transfer under AASB 1058 and the operation of the asset (e.g. maintenance) applying AASB 15 if the sufficiently specific performance obligation requirements are met.

IFR4NPO International Financial Reporting for Non Profit Organisations (INPAG)

59 Staff note that the recently released *Exposure Draft 2* defines a capital grant as "an inflow that arises from an enforceable grant arrangement of cash or another asset with a **specification** that the NPO acquires or constructs a non-financial asset that will be controlled by the NPO" (emphasis added). Paragraph AG23.48 outlines that "capital grants typically include substantial details about the various stages in the project (e.g. conception and planning, design, procurement, construction). These details are likely to mean that the capital grant is part of an **enforceable grant arrangement** (EGA) and can provide a basis for identifying the **enforceable grant obligations** (EGOs)" (emphasis added). An NPO shall identify the individual EGOs and determine for each the appropriate measure of progress (paragraph AG23.49).

60 An EGA must specify the outcome that the grant recipient undertakes to achieve with the transferred resources, the activities that the grant recipient undertakes to carry out with the transferred resources, or the distinct services, goods and other assets the grant recipient undertakes to use the resources for, either internally or to transfer externally. Such requirements on the use of resources create an EGO (paragraph G24.4). An EGO is defined as a grant recipient's undertaking in an EGA to achieve a specified outcome, to carry out a specified activity, to use distinct services, goods or other

25 See Agenda Item 9.3 *NFP domestic PIRs – academic and non-academic literature reviews.*

assets internally for a specified purpose or to transfer distinct services, goods, cash or other assets to a service recipient.

61 Staff note specification is not defined in Exposure Draft 2 however given the EGA and EGO requirements and the additional guidance about what a capital grant typically includes, similarly to staff analysis of IPSAS 47, the need to define specifications is reduced. AASB 1058 does not include these requirements.

Staff analysis and preliminary views

62 This section includes staff analysis of the feedback received, preliminary views on whether any action may be required to address the feedback and what may be done to respond to it. Appendix A and B of Agenda Paper 7.1, sets out the framework to support the Board in considering stakeholder feedback and determining what action, if any, may be required. Staff plan to formalise the recommendations on the next steps including consideration of the magnitude of the issues identified, likely timeframe of possible actions, and their expected benefits and associated costs and present them to the Board at a future meeting.

<table>
<tr><th>Feedback themes/areas</th><th>Staff analysis and preliminary views</th></tr>
<tr><td colspan="2">‘Identified specifications’</td></tr>
<tr><td>Judgement required with potential flow-on impact on comparability</td><td>63 Staff acknowledge the difficulties stakeholders may experience when determining whether an arrangement includes ‘identified specifications’ due to the term not being defined in AASB 1058, there being limited guidance and the term not being used in other non-financial asset related accounting standards.

64 On the other hand, staff also note the feedback that misinterpretations may be occasional, and a certain amount of judgement will need to be accepted (although application of judgement does not appear to be a significant issue in this area compared to some other areas the PIR covered):

(a) feedback indicates that ‘identified specifications’ may be a relatively more common issue for NFP public sector entities than for NFP private sector entities. However, interpretation complexity is reduced because, for example, standard local government infrastructure agreements include detailed plans. Preparers and auditors also tend to reach consensus on how agreements should be accounted for.

(b) further in practice, the application is less ambiguous because formal plans are generally specific enough to understand the asset that needs to be built and the ‘identified specifications’ term is limited in scope to accounting for capital grants (in comparison to the AASB 15 ‘sufficiently specific’ term which applies more broadly to external transfers).

(c) disclosures may be used by entities, where agreements do not meet the ‘identified specifications’ requirements and therefore funds are recognised upfront, to inform users that funds will be used in future reporting periods to build the non-financial asset.

65 As outlined in paragraph 46, when developing AASB 1058, the Board’s intent was for the capital grant accounting requirements to apply where there are clear requirements to build or construct an asset to specifications under the grant. Staff’s preliminary view is that where the requirements are clearly outlined (i.e. the asset to be built or constructed can be identified to a sufficient level) in the grant agreement, the ‘identified specification’ requirements will be met. However, where there is ambiguity, judgement will need to be applied. Providing more granular ‘identified specification’ requirements increases the risk of creating a rules-based</td></tr>
</table>

Feedback themes/areas	Staff analysis and preliminary views
	standard. As noted in Agenda Paper 3.2.2 *Alternative Models* (October 2023), there is strong support to continue with a principles-based approach. 66 HoTARAC commented that the word ‘specifications’ has the potential to generate uncertainty when recognising work-in-progress and that milestone payments do not always align with work-in-progress. Staff consider this issue may be caused because stakeholders do not fully understand or are unaware of the Board’s intention that the timing of income recognition for a capital grant should reflect the entity receiving the asset directly, rather than the cash to construct or acquire the asset. Accordingly, the Board decided that the accounting for such transactions should reflect that of the approach in AASB 15 (paragraph BC98). Staff note that paragraph B16 includes ‘the obligation to acquire or construct the non-financial asset is accounted for similarly to a performance obligation under AASB 15,’ and given the feedback received about the uncertainty relating to the subsequent accounting of a capital grant (see paragraph 79 also), staff’s preliminary view is that further clarification of the intent (either through narrow-scope standard-setting or educational activity) of the standard could improve practitioners’ understanding, however, the cost and benefit of such effort would need to be carefully considered. 67 Staff also note PP’s comments that the requirements of AASB 1058 do not apply to for-profit entities. This is similar to comments received as part of Topic 3: Differences between management accounts and statutory accounts and alternative revenue recognition models in relation to AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.[26] The requirements of AASB 1058 do not apply to for-profit entities and instead AASB 120 applies, which does not include the AASB 1058 capital grant accounting requirements. As outlined in Topic 3, respondents to the IASB *Third Agenda Consultation* said that IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is not consistent with the most recent accounting standards and the Conceptual Framework (ITC 50 feedback also outlined this) and the accounting choices in IAS 20/AASB 120 may have resulted in a lack of comparability. Despite the feedback, the IASB did not add the project to its work plan. Staff noted in Agenda Paper 3.2.2 that more recent thinking would be available as an alternative to adopting AASB 120 (such as IPSAS 47 and INPAG).
Assets on own land	68 Feedback suggested that where assets are to be built on an entity’s own land, less detailed plans are being accepted and there is an assumption that the asset control criteria is met. This feedback is in line with the feedback included in paragraph 64 that application of ‘identified specifications’ is less ambiguous in practice. 69 Staff understand that this distinction (between own land or otherwise) may stem from the application of the IFRS 15/AASB 15 requirements to residential developments, where developers may recognise revenue when the customer gains control over the asset (which may be deemed to occur when the developer has the right to payment for the asset, where the customer is exposed to the risks and rewards of the ownership of the asset and where the customer is deemed to have accepted the asset). Staff note that the notion of control in capital grants under AASB 1058 relates to the identification of the asset ‘to be controlled’ as opposed to the assessment of whether the control exists at the point in time when the identified specifications are being assessed. In addition, staff note that these comments were not raised regarding the timing of income recognition.
Feedback on ITC 50 example obligations	70 The differences in conclusions between those included in ITC 50 and stakeholders, demonstrates that different judgements can result in different conclusions being reached on whether an arrangement includes ‘identified specifications.’

26 See paragraphs 17 to 20, 63 to 73, 96 to 99 and 116 to 119 of Agenda Paper 3.2.2 *Alternative Models* (October 2023).

Feedback themes/areas	Staff analysis and preliminary views
	71 Staff noted the mixed feedback which suggested significant revision is needed because of the judgement required to determine ‘identified specifications’ in an agreement however the same stakeholder also expressed that entities have interpreted the requirements to the best of their ability and would not want to see substantial changes made that would make it even more difficult to apply the standards. 72 In response to ACAG’s comments, provided from one jurisdiction, that the examples in ITC 50 are simplistic and unrealistic, staff acknowledge that illustrative examples in accounting standards will not cover all situations and judgement will need to be applied. The feedback included that, in practice, arrangements have provisions for the acquittal of funds and details on what asset is being constructed. Where this is the case, staff do not expect there will be issues determining whether an agreement includes ‘identified specifications’ and therefore, any additional guidance may be of limited use. This feedback is consistent with feedback referred to in paragraphs 64 and 68 that the application of ‘identified specifications’ is less ambiguous in practice. 73 In light of the feedback received in the feedback themes/areas above, staff’s preliminary view is that any changes need to be considered carefully so as to not create additional implementation costs for stakeholders. This should also be balanced with the feedback that the determination of ‘identified specifications’ is less ambiguous because for example, contracts are typically detailed enough to be considered to have ‘identified specifications’ and where funding is provided to construct an asset on an entity’s own land the determination is less contentious. Considering this, staff consider the cost of adding more detail to AASB 1058 to outline what ‘identified specifications’ means may outweigh the benefits.
Alternatives to identified specifications	74 HoTARAC suggested ‘identified asset’ (from AASB 16) and an outreach event attendee suggested ‘specified asset’ could be used as an alternative to ‘identified specifications.’ As outlined in AASB 16 paragraph B13, an identified asset is explicitly specified in a contract or otherwise implicitly specified when it is made available for use. In the context of a lease, staff consider it would be easier to identify the existing asset subject to the lease however in the context of a capital grant the identified asset may still be difficult to identify where it has not been built and therefore a similar level of judgement would likely be required to apply the terms “identified/specified asset” and “identified specifications” within the principle-based accounting requirements. 75 As outlined in paragraph 46, when developing AASB 1058 the board decided that capital grant accounting would apply where an arrangement includes clear requirements to build or construct an asset to specifications under the grant. Staff have not identified any specific board discussions about the use of the term ‘identified specifications.’ However, staff note that the terms of the agreement, including the granularity of the asset specifications, would be agreed by both parties when entering the transaction (as pointed out by HoTARAC) which in staff’s view would be reflected in the AASB 1058 requirement for those specifications to be identified.
Identified specifications	76 Stakeholders have requested additional guidance to assist entities in identifying the level of specificity required to meet the ‘identified specifications’ requirements. 77 As outlined in paragraph BC98, in the context of a capital grant the transferor intends to transfer a recognisable non-financial asset to the NFP entity. Following this, staff consider the grant recipient and transferor need to agree on the asset to be acquired or constructed and when the asset to be acquired or constructed is clear, it is expected that there will be ‘identified specifications.’ Although the feedback received above indicates the application of ’identified specifications’ in practice is less ambiguous, staff acknowledge the feedback that stakeholders would like additional guidance on what this means. Staff’s preliminary view, if the Board decides to clarify further (i.e. through a narrow-scope standard-setting project or educational activity as discussed in paragraph 66), staff could explore how it could be more

Feedback themes/areas	Staff analysis and preliminary views
	clearly articulated to stakeholders that the asset to be acquired or constructed needs to be clear in the agreement between the grant recipient and the transferor. Staff's preliminary view however is that the nature and magnitude of issues raised by stakeholders in this area may not warrant a standard-setting response and benefits of such effort may not outweigh the cost associated with it.
Illustrative examples and over time versus point in time recognition	78 Feedback was received that the term 'identified specifications' implies a high degree of specification however Illustrative Example 9, in relation to early learning centres, outlines that when the building is built to regulations this is enough. Staff consider the regulations conclusion is specific to the fact scenario in the example. Entities would be expected to analyse the specific facts and circumstances of their arrangement and make the 'identified specifications' assessment based on this, using judgement. Regulations in some areas may not be specific enough to meet the requirements. 79 BDO recommended the Board elevate comments in paragraphs BC98 to paragraph B16. Staff note that paragraph B16 outlines that "the obligation to acquire or construct the non-financial asset is accounted for similarly to a performance obligation under AASB 15. For each obligation, the entity shall determine whether the obligation would be satisfied over time or at a point in time." Staff consider the relevant guidance in paragraph BC98 that may assist entities includes "that an in-substance transfer of a good for use by the entity itself should not result in income until the recipient has satisfied its obligation to construct or acquire the asset. That is, the timing of income recognition should reflect the entity receiving the asset directly, rather than the cash to construct or acquire the asset." Staff consider this feedback is in line with the feedback in paragraph 66 and staff's preliminary view is that if a narrow-scope project is performed, including the requirements of paragraph BC98 in paragraph B16 could be considered if it is determined that it would help the application of the requirements. However, it would appear paragraph BC98 does not include more clarification compared to the requirements of paragraph B16 in combination with paragraph B17 and existing illustrative examples and therefore the value-add of any further effort needs to be considered carefully.
No substantial changes	80 Staff concur with PP's comments that substantial changes to the capital grant requirements should not be made that would make it more difficult to apply the standards and so any changes should be carefully considered. 81 PP also recommended the AASB remove the FAQ document and locate any examples as part of the guidance in the relevant standard. 82 It was also recommended that the AASB adopt the IFR4NPO standard (INPAG) when it is finalised. As outlined in paragraphs 59, Exposure Draft 2 uses specifications without defining what this means (IPSAS 47 also includes similar requirements). However, the exposure draft also includes EGA and EGO requirements which, staff consider, reduces the need to define specifications. Staff consider that if Exposure Draft 2 is adopted similar interpretational issues could occur, as with 'identified specifications,' unless EGA and EGO is also adopted. 83 As noted in paragraph 59, the exposure draft outlines that capital grants typically include substantial details about the various stages in the project (e.g. conception and planning, design, procurement, construction). Staff's preliminary view is that if a narrow-scope project is performed staff could consider whether including guidance similar to this in AASB 1058 would assist stakeholders in this area. However, staff also note that the Board may decide to investigate and consider IPSASB and INPAG concepts of compliance/enforceable grant obligations more broadly as a potential response to the feedback on other areas covered by this PIR and in such a case any narrow-scope effort could be premature.

<table>
<tr><th>Feedback themes/areas</th><th>Staff analysis and preliminary views</th></tr>
<tr><td>Disclosure of accounting policies</td><td>84 Observations from research indicate that only two universities out of 40 included capital grant related disclosures in their financial statements. Staff consider this may be because either a university’s capital grant funding was immaterial and therefore no disclosures were included in the financial statements or the university may not have received capital grant funding in the periods presented in the examined reports.</td></tr>
<tr><td colspan="2">Other matters</td></tr>
<tr><td>Interaction of the scope of AASB 1058 and AASB 15</td><td>85 Feedback indicates entities have issues splitting capital and non-capital amounts that are included in the same agreements because of the different requirements of AASB 1058 (‘identified specifications’) and AASB 15 (‘sufficiently specific’ performance obligations). Unbundling the requirements can require a lot of resources. Further, non-capital amounts may be being capitalised and there is no guidance in AASB 1058 that outlines that this should not occur.

86 Staff also note that the clear distinction between grants in scope of AASB 15 and those in scope of AASB 1058 is the existence of the distinct promise to transfer goods and services to a beneficiary. Staff also note that paragraph F27 in AASB 15 Appendix F clearly states that “Where a contract provides a transfer of a financial asset for an entity to acquire or construct a non-financial asset (e.g. a building or an intangible asset) that is to be controlled by the entity, the contract does not establish rights and obligations for the transfer of the non-financial asset to the transferor or other parties. Accordingly, the contract is not a contract with a customer, and hence is not accounted for in accordance with AASB 15.” Further, in AASB 1058:

(a) Paragraph 15 notes that “The key criterion is that the recognisable non-financial asset will be under the control of the entity (i.e. for its own use) – it will not be transferred to the transferor or other parties. Therefore, the transfer of the financial asset (or the relevant part) to the entity does not occur under a contract with a customer and is not subject to AASB 15. However, the recognisable non-financial asset could increase the entity’s ability or capacity to provide goods or services to other parties pursuant to other transactions, which are separate to the transfer that enabled the entity to acquire or construct the nonfinancial asset for its own use.”

(b) Paragraph B16 requires “on initial recognition of the financial asset, the entity recognises the requirement to acquire or construct the recognisable non-financial asset as an obligation and considers whether there are other conditions that give rise to performance obligations that require the entity to transfer goods or services to other entities (which are accounted for under AASB 15).” Staff also note that staff’s preliminary view is that there is nothing more that could be added to the standard to clarify this principle further and entities are required to understand the principles of the standard in order to apply the requirements appropriately.

87 Based on the above, staff’s preliminary view is that the accounting standards provide sufficient guidance, acknowledging that the level of judgement and complexity of the assessment will depend on the particular facts and circumstances of the arrangement. Whilst staff note that there are no illustrative examples that demonstrate a situation where an arrangement includes a capital grant component and an AASB 15 component, the statement in Illustrative Example 9 in AASB 1058 may be helpful to constituents: “The grant to construct an asset to be controlled by School A does not require a sufficiently specific transfer of goods or services to the grantor or another party (see paragraph F20 of AASB 15) and the requirement to continue using the school for EL programs is not sufficiently specific to know when the service has been provided. This is because it is not possible to know at the time an EL program is delivered whether it is a program that satisfies requirements of the grant.” Although the accounting does not result in a capital grant being recognised and results in accounting under AASB 15, staff also consider AASB 1058 Example 7d – Enforceable and sufficiently specific performance obligations, which outlines an arrangement where donations</td></tr>
</table>

Feedback themes/areas	Staff analysis and preliminary views
	were received to build wells in Kenya, illustrates that although an arrangement can relate to the building of an asset, the arrangement needs to be understood and the relevant accounting requirements be applied. 88 Staff's preliminary view is that, if deemed that the benefits outweigh the costs, additional illustrative example(s) or other educational material could be developed to address the issues above as part of the narrow-scope project. Additional outreach would need to occur to understand the circumstances where entities are experiencing the most difficulties. On the other hand, staff also consider that an example(s) will not apply to all circumstances and therefore may be of limited benefit. In this light, staff could explore other ways in which education could be used so stakeholders more clearly understand the principles in the standards. 89 Specific feedback was also received that maintenance costs are being capitalised. Staff consider this may also be occurring for arrangements where assets are accounted for applying AASB 116 and are outside the scope of capital grant accounting. Staff consider that, in practice, some stakeholders may not understand that maintenance costs cannot be capitalised applying the requirements of AASB 116 and if further guidance needs to be developed to clarify this, it would be outside the immediate scope of the NFP Income PIR and could be addressed via an educational activity.
Areas of complexity where additional clarification may be required	*Funding received before or after work is completed* 90 Feedback indicates there is uncertainty about funds received in advance (liability) and unbilled work in progress (asset) and whether these capital grant related amounts should be disclosed with the AASB 15 contract asset and contract liability balances. Staff note the disclosure requirements in AASB 1058 paragraph 31 and AASB 15 paragraph 116 are similar. However, AASB 1058 deliberately does not use the terms contract assets and contract liabilities. As outlined in paragraph BC125, the Board intended to replicate various AASB 15 disclosure requirements in AASB 1058. The Board noted that these disclosures provide useful information to users of NFP entity's financial statements and that similar disclosures would have been required had the agreement been determined to be within scope of AASB 15. 91 This feedback was only provided by ACAG and therefore staff are unsure whether this is causing concerns for all stakeholders. Staff note that section 14 of the *AASB Staff FAQs: AASB 15* Revenue from Contracts with Customers, *AASB 1058* Income of Not-for-Profit Entities *and AASB 16 Leases* (as outlined in paragraph 54) includes an illustration of when an NFP entity has partially but not yet fully performed the activities required under the agreement and the associated asset (e.g. grant funding in cash or other asset) has not yet been received, which may help stakeholders in this area. Staff also consider that the recognition and presentation requirements for the grants accounted for under AASB 1058, due to its residual nature, would point to other accounting standards and disclosure practices beyond those required by AASB 1058 would have been agreed between an entity and its auditors and therefore this may not be an issue that the AASB needs to address. However, if the Board considers it would like to further define the capital grant disclosure requirements, this could be clarified in AASB 1058 as part of the narrow scope standard-setting referred to in paragraph 66. However, this should be weighed with the costs of implementing the change, for example, entities being required to combine the disclosures in their financial statements if the AASB 15 and AASB 1058 disclosures are currently separated. 92 Another stakeholder commented they experience issues in relation to payments in arrears and there are questions about how to recognise this when activities are done before payment. Staff consider this is relevant to ITC 50 Topic 5: Grants received in arrears and will be considered as part of that topic when it is presented to the Board at a future meeting. As noted in paragraph 91, section 14 of the AASB Staff FAQs aims also assist stakeholders in this area.

Feedback themes/areas	Staff analysis and preliminary views
	Inventories 93 ACAG commented they are experiencing complexity in relation to determining whether a grant for the development of inventories to 'identified specifications,' for their own use, could be accounted for as a capital grant and requested the Board clarify this. 94 Staff note that AASB 116 is referred to in AASB 1058 paragraph 17 as an example and other non-financial asset related standards are not explicitly referred to in paragraphs 15 to 17[27] and paragraph B15 prohibits assets not recognisable under other standards from being recognised as a capital grant, with AASB 138 being specifically stated.[28] 95 AASB 1058 does not include specific prohibition for assets accounted for applying AASB 102 (or other relevant non-financial asset related standards) to be accounted for as a capital grant. More so, considering paragraph 17 which states that: (a) 'the transferor has in substance transferred a recognisable non-financial asset to the entity' (and paragraph B15 which includes similar guidance and also a 'recognisable asset to be controlled by the entity'); and (b) 'the entity recognises the financial asset received in accordance with AASB 9 and subsequently recognises the acquired or constructed non-financial asset in accordance with the applicable Australian Accounting Standard,' staff consider that, assuming these conditions are met (including the presence and compliance with the 'identified specifications' as required by paragraph 15 in AASB 1058 and the absence of a distinct transfer promise) and inventory can be recognised applying an Australian Accounting Standard (AAS) and the entity will control the inventory, inventories would meet the requirements to be accounted for as a capital grant. Staff also consider relevant that the Board considered, when developing AASB 1058, 'that an in substance transfer of a good for use by the entity itself should not result in income until the recipient has satisfied its obligation to construct or acquire the asset. That is, the timing of income recognition should reflect the entity receiving the asset directly, rather than the cash to construct or acquire the asset' (paragraph BC98). 96 HoTARAC requested clarity around whether paragraph 15 and 16 are class-dependent for non-financial assets (for example, inventories). 97 As noted above, paragraph 17 requires the non-financial asset to be recognised in accordance with the applicable AAS and paragraph 32 requires an entity to 'disclose information about its obligations under such transfers, including a description of when the entity typically satisfies its obligations (for example, as the asset is constructed, upon completion of construction or when the asset is acquired).' 98 Staff consider that an entity would apply the recognition requirements in the relevant AAS for asset recognition and disclose relevant related liability information applying the requirements of paragraph 32 if material. The AASB 101 *Presentation of Financial Statements* principles (materiality and aggregation and significant judgements) are also applicable. 99 In response to ACAG and HoTARAC's comments, staff's preliminary view is that AASB 1058 (and other relevant AAS) include adequate guidance to direct entities to account for inventories as capital grants (if recognition criteria is met) and include relevant disclosures as required, and no further work is required in this area. Staff also note that ACAG and HoTARAC

27 AASB 1058 paragraph 17: "The entity recognises the financial asset received in accordance with AASB 9 and subsequently recognises the acquired or constructed non-financial asset in accordance with the applicable Australian Accounting Standard (eg **AASB 116 for property, plant and equipment**)." (emphasis added)

28 See extract of AASB 1058 paragraph B15 in footnote 15.

Feedback themes/areas	Staff analysis and preliminary views
	are the only stakeholders to raise this issue and therefore staff are unsure how widespread this issue is.
Funding from more than one source	100 ACAG commented that additional guidance is required in situations where an asset is constructed using funding from more than one source (for example, one or more grants and the entity's own funds) because it is not clear how the funding should be allocated to the construction of the asset. This was only raised by ACAG so staff are unsure how widespread this issue is in practice. 101 No specific guidance is included in AASB 1058 relating to this, however as noted in paragraph BC98 the accounting for capital grants was intended to mirror the accounting in AASB 15 to the extent possible. AASB 15 includes guidance on measuring progress towards the complete satisfaction of a performance obligation (paragraphs 39 to 45) which outlines the objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a customer (i.e. the satisfaction of an entity's performance obligation) and an entity shall apply a single method of measuring progress for each performance obligation satisfied over time and the entity shall apply that method consistently to similar performance obligations and in similar circumstances. Staff consider entities can use this guidance to determine an appropriate method to allocate funding to the 'identified specifications' in the agreement. Staff's preliminary view is that, as part of the narrow-scope project suggested above in paragraph 66, staff could consider how the need to apply the AASB 15 accounting requirements to capital grant accounting could be more clearly communicated to stakeholders. However, the extent and benefits of work performed in this area should be weighed against the costs considering this was not expressed as an area of common concern.
Educational material	102 Staff note that when preparing this paper, the Staff FAQs, Key facts document and educational webinar might not be as easily accessible as they could be by stakeholders. This is consistent with stakeholder feedback that guidance is included in multiple places (for example, AASB 15, AASB 1058 and Staff FAQs), and staff consider this could contribute to difficulties applying the income recognition requirements. Depending on the Board's decision whether and how to address the PIR findings, an effort to consolidate educational material and make it more accessible (e.g. via illustrative examples) could be considered.

Question to Board members

Q1: Do Board members have any questions or comments on the feedback, staff analysis or preliminary views for this topic?