



Project:	Post-Implementation Reviews	Meeting:	M201
Topic:	Income of Not-For-Profit Entities – Grants received in arrears	Agenda Item:	8.2
		Date:	20 February 2024
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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 5: Grants received in arrears included in [Invitation to Comment 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 5. 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 steps¹ at a future meeting.

Structure

- 2 This paper is structured as follows:
 - (a) Background (paragraphs 3 to 12)
 - (b) Analysis of respondents' feedback (paragraphs 13 to 37)
 - (c) What the AASB has done so far (paragraphs 38 to 49)
 - (d) Staff analysis and preliminary views (paragraphs 50 to 59)

Background

- 3 A Not-for-Profit (NFP) entity that receives a grant that is enforceable but that does not meet the AASB 15 *Revenue from Contracts with Customers* sufficiently specific criterion accounts for the grant in accordance with AASB 1058 *Income of Not-for-Profit Entities*.
- 4 Where such grants are received in arrears, NFP entities need to consider the accounting treatment of the grant. For example, should an asset representing the right to receive the asset (and associated income) be recognised:

1 See Appendix A: Post-implementation review (PIR) decision-making process and Appendix B: Possible responses to PIRs in [Agenda Paper 7.1 Cover Memo: PIR Income of Not-for-Profit Entities](#) (November 2023).

- (a) in full at the time the agreement is entered into;
 - (b) on a pro-rata or another basis over time as the terms of the agreement are fulfilled; or
 - (c) when all the eligibility criteria are met for the transaction as a whole.
- 5 Except for volunteer services, paragraph 8 of AASB 1058 requires the entity to apply the requirements of other Australian Accounting Standards (as relevant) in assessing whether an asset arising from a transaction should be recognised and how it should be measured. Under that paragraph, the entity is required to recognise, depending on the nature of the asset:
- (a) a financial asset (e.g. a receivable)² in accordance with AASB 9 *Financial Instruments* when it has a contractual right to receive cash or another financial asset from the grantor; or
 - (b) another type of asset in accordance with another Standard, for example, AASB 16 *Leases*, AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*, when the transaction gives rise to an asset that is outside the scope of AASB 9.
- 6 As summarised in [Agenda Paper 3.2.1](#) (October 2023) providing an overview of the feedback from the post-implementation review (PIR) by topic, stakeholder feedback indicated there are divergent views regarding how to account for grants received in arrears, particularly where some of the work to be funded by the grant is performed before the funding is received. AASB staff released an FAQ that provides guidance and an example illustrating the accounting for a grant received in arrears.³ However, based on stakeholders' feedback, differences in application still exist.
- 7 The following example was included in ITC 50:

Example

In December 20X1, an NFP entity is awarded a funding grant in relation to community engagement. The agreement is enforceable, however, it is not considered sufficiently specific. Therefore, it is within the scope of AASB 1058.

The NFP entity is entitled to \$100 per community engagement session held (without further specification in relation to the sessions, for example, location and target audience) up to a maximum of \$100,000. The NFP entity submits claims for payment every six months (in July and January). Five hundred sessions have been held between January and June 20X2.

The different approaches occurring in practice are:

- (a) not recognising an asset (or revenue) until the funds are received;
- (b) recognising a receivable (and revenue) when the work is performed; and
- (c) recognising a contract asset as the work is performed.

2 AASB 9 paragraph 3.1.1: 'An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument (see paragraphs B3.1.1 and B3.1.2).'

Paragraph B3.1.2: 'The following are examples of applying the principle in paragraph 3.1.1:

(a) Unconditional receivables and payables are recognised as assets or liabilities when the entity becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash.'

3 See Section 5 in [AASB Staff FAQs: AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 16 Leases](#) (May 2022). This includes guidance in relation to the question '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 performance?' The guidance includes details about what stakeholders should consider when deciding whether an asset should be recognised. The table in paragraph 38 includes more details. Further, staff note that AASB 1058 includes Illustrative Examples 8A and 9 that provide examples of grants where funding is received in advance however AASB 1058 does not include examples where funding is received in arrears.

- 8 AASB 1058 does not include guidance on what a receivable is and does not define contract asset.⁴ Regarding the requirements of AASB 15:
- (a) paragraph 108 outlines that ‘a receivable is an entity’s right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognise a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with AASB 9.’ (see footnote 2 for relevant AASB 9 paragraphs); and
 - (b) contract asset is defined as ‘an entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity’s future performance).’
- 9 The AASB considers that the interpretation about the type of asset that may exist where grant funding is received in arrears depends on the facts and circumstances of the particular agreement. The AASB also notes that determining the type of asset to be recognised is outside the scope of AASB 1058 and may also be outside the scope of AASB 15. Staff note, for example, as outlined in the [November 2021](#) agenda paper, if the facts and circumstances of the particular situation give rise to a financial asset, the asset recognition guidance would be outside the scope of AASB 1058. Further, if there are scenarios where the conditions are not met for a financial asset to be recognised, a contract asset under AASB 15 is not recognised because the contract is out of the scope of AASB 15.
- 10 ITC 50 asked the following questions on grants received in arrears:

Questions for respondents

Do you have any comments regarding:

- 15. the accounting for grants received in arrears, particularly where some of the work to be funded by the grant is performed before the funding is received? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful;*
- 16. whether differences in application exist in the accounting for grants received in arrears exists? If so, please provide examples that illustrate the relevant circumstances, their significance and the prevalence of any differences in practice.*

- 11 Following the issue of the ITC, during the outreach phase of the PIR, staff actively engaged with stakeholders to seek feedback on this topic.⁵ 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.⁶ Stakeholders were also invited to discuss the topic further during one-on-one meetings with staff where they requested this.
- 12 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](#) (November 2023) sets out the framework to support the Board in considering stakeholder feedback and determining what action, if any, may be required.

⁴ The Board decided that AASB 1058 should not address the recognition of assets that are already the subject of existing Accounting Standards (AASB 1058 paragraphs BC25(b), BC58 and BC59).

⁵ See [Agenda Paper 3.2.0 Cover Memo: Income of Not-for-Profit Entities](#) (October 2023) for more details.

⁶ 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](#).

Analysis of respondents

13 Details of the stakeholders who provided feedback on ITC 50 Topic 5 include:

	Response details
Comment letter respondents:	6 out of 15 respondents provided comment. See submissions 1, 7 to 9 and 12 to 13 on the AASB website .
Survey responses to the question 'from your experience, do you have any comments regarding the accounting for grants received in arrears, particularly where some of the work to be funded by the grant is performed before the funding is received?'	6 respondents answered 'Yes' while 6 answered 'No.' 10 survey respondents skipped the question. See pages 19 to 20 of Agenda Paper 3.2.5 ITC 50 Survey responses (October 2023) for further feedback relating to this topic.
Virtual outreach meetings	A number of stakeholders provided feedback during these meetings: <ul style="list-style-type: none"> • Not-for-Profit Advisory Panel (1 out of 13 attendees commented); • Roundtable 1 (Not-for-Profit Private Sector stakeholders) (4 out of 17 attendees commented); • Roundtable 2 (Local Government stakeholders) (2 out of 53 attendees commented); • Roundtable 3 (State, Territory and Commonwealth stakeholders) (2 out of 40 attendees commented); and • 3 stakeholders in individual meetings. <p><i>Agenda Paper 3.2.6 ITC 50 virtual meeting notes</i> (October 2023) was provided to the Board [in supplementary folder for the Board only].</p>

14 Comments made at the NFP Advisory Panel meeting, Roundtables 1 to 3 and individual meetings are consistent with feedback received in the comment letters. Specific comments have been included in this paper where they add or are different to the feedback received in the comment letters. However, detailed feedback is included in the supporting agenda papers.

Feedback on Questions 15 – accounting for grants received in arrears, particularly where some of the work to be funded by the grant is performed before the funding is received

Clarify accounting under AASB 1058

- 15 ACAG believes the AASB need to clarify the accounting for grants received in arrears. A survey respondent commented that the distinction between recognising a receivable and a contract asset is not well understood.
- 16 A member of the NFP Advisory Panel thought that an asset should be recognised but not a receivable or a contract asset where they do not meet the recognition criteria for these.

Recognition of a receivable

- 17 ACAG, RSM, BDO and Deloitte commented on the need for the recognition criteria in AASB 9 to be met for a receivable to be recognised, particularly when the entity has the contractual right to receive cash (or another financial asset). Examples provided by respondents included:
- when the entity has met the agreed milestones for billing under the agreement (that is, the only remaining condition is the passage of time) (ACAG);
 - work has been performed in line with the terms of the grant agreement in advance of payment by the grantor (RSM);

- (c) recognition when the entity has met the specific criteria which entitles them to payment. Otherwise, the 'asset' is more akin to a contract asset under AASB 15, which is still subject to performance risk. This is similar to accounting for refundable R&D incentives by for-profit entities. If it is probable that the amount will be received (i.e. a professional has reviewed the amount claimed), a receivable is recognised prior to receiving the refund (BDO); and
- (d) the assessment of enforceability is key as the ability to recognise a receivable would be based on whether the recognition criteria in AASB 9 have been met – specifically, whether there is a contractual right to receive cash or another financial asset from the grantor (Deloitte).
- 18 HoTARAC accepts that a receivable may be recognised in respect of work commenced in advance of a grant receipt in circumstances where recognition criteria in the *Framework for the Preparation and Presentation of Financial Statements* (Conceptual Framework) are met. They consider the following points salient to the recognition:
- (a) the recognition of receivables for accrued grants in arrears under AASB 1058 should be consistent with the definition and recognition criteria for assets as outlined in paragraphs 49⁷ and 89⁸ of the Conceptual Framework;
- (b) to recognise a receivable, evidence of an unconditional right to receive cash, or virtual certainty to receive cash under AASB 9, must exist; and
- (c) the funder must have little capacity to avoid the settlement of the receivable.
- 19 HoTARAC also commented that recognising the income and receivable occurs when control is established in accordance with AASB 1058 paragraph 10⁹ and a significant increase in the probability of future economic benefit occurs (paragraphs 57¹⁰ & 85¹¹ of the Conceptual Framework). However, HoTARAC commented that AASB 1058 is not clear on whether a receivable should be recognised applying the principles in the Conceptual Framework if it does not fall within a particular accounting standard.
- 20 A survey respondent commented that their entity recognises a receivable (and revenue) when works being funded have been completed. This matches the revenue to the expenditure.
- 21 Four stakeholders at Roundtable 1 (NFP Private Sector) supported recognising revenue (and a receivable) when the expense is incurred or there is performance against a fairly specific contract and it will be received by the fund provider at the end of the period. One stakeholder considered this gives the best visibility for the entity. Two stakeholders at Roundtable 2 (Local Government stakeholders) also made comments about recognising a receivable when funding was due, including whether it is recognised applying the requirements of AASB 9, auditors requiring recognition and being careful with what is meant when determining what is meant by 'when funding is due.'

7 Paragraph 49(a): 'An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.'

8 Paragraph 89: 'An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.'

9 AASB 1058 paragraph 10: 'Except as set out in paragraphs 15–17, an entity shall recognise income immediately in profit or loss for the excess of the initial carrying amount of an asset over the related amounts recognised in accordance with paragraph 9.'

10 Paragraph 57: 'Many assets, for example, receivables and property, are associated with legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; thus, for example, property held on a lease is an asset if the entity controls the benefits which are expected to flow from the property. Although the capacity of an entity to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal control. For example, knowhow obtained from a development activity may meet the definition of an asset when, by keeping that knowhow secret, an entity controls the benefits that are expected to flow from it.'

11 Paragraph 85: 'The concept of probability is used in the recognition criteria to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the entity. The concept is in keeping with the uncertainty that characterises the environment in which an entity operates. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence available when the financial statements are prepared. For example, when it is probable that a receivable owed by an entity will be paid, it is then justifiable, in the absence of any evidence to the contrary, to recognise the receivable as an asset. For a large population of receivables, however, some degree of non-payment is normally considered probable; hence an expense representing the expected reduction in economic benefits is recognised.'

Contract asset

- 22 A survey respondent requested clarification in this area because auditors have required contract assets to be recognised even when there is no customer. They suggested this creates confusion over what agreements are accounted for applying AASB 15 and AASB 1058.

Capital grants

- 23 Some ACAG jurisdictions have views that for capital grants, because of AASB 1058 paragraph B16¹² linking to AASB 15, that a contract asset can be recognised for capital grant payments in arrears. An accounting expert in an audit office provided similar comments in an individual meeting and suggested clarification is needed about whether the contract asset concept applies or the receivable requirements of AASB 9 apply. A local government preparer in an individual meeting also requested clarity in this area.

AASB Staff FAQs educational material¹³

- 24 Deloitte noted that the current guidance contained in the AASB Staff FAQs has been helpful to NFP entities in this regard and thereby reducing any diversities in practice.
- 25 However, ACAG commented that AASB 1058 and the AASB Staff FAQs do not clarify whether an asset can arise prior to the definition of a financial asset being met. While the FAQ states that a contract asset should not be recognised based on the facts and circumstances of the example provided, that is because there are no further conditions to be met. No example is actually provided where there are still conditions outstanding. ACAG made the following specific comments about the examples:

FAQ Scenario 1a – Non-capital grant:

- (a) one ACAG jurisdiction believes that the fact pattern in Scenario 1a is not sufficiently detailed. For example, the jurisdiction agrees that unbilled work-in-progress can be recognised, and the associated income, as at 30 June because of the contract details (permitting billing at the end of the quarter, that is, 30 June).
- (b) another ACAG jurisdiction is of the opposite view that a contract asset should not be recognised as the concept of a contract asset does not exist in AASB 1058. Instead, a receivable should be recognised as the entity has the right to bill at 30 June. Even though the entity has not yet billed at 30 June, the billing process is a mere administrative formality. If, under alternative facts, the entity did not have the right to bill at 30 June, no receivable and no income would be recognised;
- (c) at least three other ACAG jurisdictions believe that the FAQ is not clear as to how the definition of receivable is met at 30 June because the entity only expects the claim to be accepted by the grantor, it does not have an unconditional right to bill the grant money until after the end of the financial year. These jurisdictions also then contemplate whether this is sufficient to recognise a revenue accrual under AASB 9 because there are no other milestones which need to be met. One of these jurisdictions also considers that another view is that a contract asset could be accrued every month; and

FAQ Scenario 1b – Capital grant:

- (d) ACAG commented that while based on the interpretation of the facts and circumstances there are no further conditions (other than the passage of time), some jurisdictions think the example needs to further clarify how the definition of a financial asset has been met. This is because while the payment may not be received until the end of the quarter, the entity is entitled to bill at the end of each quarter.

12 This states ‘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) ITC 50 [Topic 2 Capital grants](#) was presented to the Board at the November 2023 meeting.

13 See footnote 3 and paragraph 38 for details.

Additionally, the current wording remains unclear about the existence and nature of any milestones which may be indicative of conditions which must be met prior to the definition of a financial asset being met. If the AASB are of the view that it depends on the nature of the milestone (that is, the timing of billing only or is it a stage of completion type milestone) then more examples or clarification should be provided, including whether this would warrant the recognition of the equivalent of a contract asset. ACAG believes that the ability to recognise a contract asset should be clarified for grants in arrears, particularly where the grant meets the conditions in paragraph 15 of AASB 1058.

- 26 Due to the divergent views in paragraph 25, ACAG recommends the AASB revisit the AASB Staff FAQs and clarify whether income should be recognised when the work is performed, the claim is raised, or when the claim is approved.
- 27 HoTARAC also commented that the AASB Staff FAQs currently gives rise to uncertainties within the Accounting Policy fraternity. This confusion may be reduced by review and editorial changes to the FAQ.
- 28 Two stakeholders at Roundtable 3 (State, Territory and Commonwealth government) commented in line with ACAG and HoTARAC's formal feedback including that clarification should be provided about at what point a receivable should be recognised and guidance is needed in relation to whether the right to receive the grant in arrears would be enforceable.

ITC 50 example

- 29 One ACAG jurisdiction disagrees with the conclusion in the example of holding community engagement sessions within the ITC as they believe that a sufficiently specific performance obligation exists – that is, to hold community engagement sessions. While the grantor may not have included details such as location and target audience, the recipient is permitted to decide how those sessions are held and is entitled to \$100 for each session. Consequently, the recipient should be able to recognise revenue as it performs the performance obligation (that is over time), and not when the amount is billed at six-monthly intervals. The ACAG jurisdiction notes that if the recipient was a private sector organisation, there would not be as much focus on the term sufficiently specific. Instead, the focus would be on the performance obligation (to hold community engagement sessions), and whether there is a suitable measure for performance (which there is).
- 30 A survey respondent commented that they have experienced a similar situation to the example in practice. The conclusion reached was that it was not appropriate to recognise the income before it was received, because it was not sufficiently specific, and was in the scope of AASB 1058. It was not appropriate to recognise the income and receivable as the sessions were held, because that is contrary to it not being sufficiently specific.

AASB 120 Accounting for Government Grants and Disclosure of Government Assistance

- 31 HoTARAC questioned the recognition of grant income in arrears pursuant to AASB 120 paragraphs 12 and 20.¹⁴ Without capacity to avoid settlement by the grantor and the grantee's unconditional right to receive, it appears that a contingent asset exists.

¹⁴ Staff note this is relevant to ITC 50 Topic 3: Differences between management accounts and statutory accounts and alternative revenue recognition models which was presented to the Board at the October 2023 meeting. The Staff Paper outlines concerns with AASB 120.

Feedback on Questions 16 – differences in application in the accounting for grants received in arrears

No observations of differences

- 32 Pitcher Partners (PP) had no comments on this topic however noted they had not encountered this issue with their clients. Similarly, BDO have not observed differences in application in practice but they anticipate they exist if amounts are material.

AASB Staff FAQs educational material

- 33 Deloitte believe that if NFP entities are correctly applying the current guidance contained in the AASB Staff FAQs, this should ideally eliminate differences in application and thereby reduce any diversities in practice. Given the demonstrated usefulness of this guidance, Deloitte believe the Board should consider formalising it as authoritative guidance within the Standards.

Practical application issues

- 34 RSM commented that divergent views on recognition arising from stakeholders making what should be relatively straightforward judgements, such as whether financial asset recognition for grant income in arrears is appropriate and in line with AASB 9, have arisen due to the confusion caused by the complexity of judgement required by AASB 1058 of whether sufficiently specific performance obligations are included in the grant agreements.
- 35 ACAG consider practical application issues arise when it comes to determining what is necessary with regards to the entity 'assessing that it has satisfied the eligibility criteria of the grant agreement' and 'the NFP expects the claim to be accepted by the grantor' (terminology used in the AASB Staff FAQs¹⁵) and whether the grantor has little, if any discretion to avoid the payment. There are often diverse views on whether an approval and verification process is purely administrative, meaning the receivable is unconditional. In most cases, when submitting a claim, an entity would argue that they are expecting that claim to be accepted, particularly given certifications are often required. However, in practice, these claims are often heavily scrutinised, and may be based on subjective criteria of which there are different opinions. As such, in many cases, particularly for funding from the Commonwealth, some jurisdictions have the view that the income (and receivable) should not be recognised until the claim has been accepted (for example funding programs in which the Commonwealth agrees to reimburse the State for certain expenditure such as Disaster Recovery Payments). It is also unlikely that a payment schedule in a National Partnership or State Partnership Program will constitute a receivable. A more specific confirmation from the Commonwealth of payment timing and amount would be required. [ACAG's comment letter](#) includes details of specific examples, from different jurisdictions, where expenditure had been incurred before funding was received, and when the receivable (and associated income) was/should be recognised.
- 36 HoTARAC provided the example of grants paid in arrears to Government Trading Enterprises (GTEs) and other agencies being accounted for differently despite having similar obligations and depending on the specificity of the grant agreement obligations.

Achieving a particular outcome

- 37 RSM commented that the apparent reluctance of some entities to recognise grants received in arrears as a financial asset, even where the recognition criteria of AASB 9 are clearly met, may arise less from concern about the recognition of a financial asset, and more from concern about having to recognise the associated income in a manner which does not match the recognition of the related expenses.

15 Refer to page 30 of the [AASB Staff FAQs](#).

What the AASB has done so far

38 The table includes details of the development of educational material.

AASB Board meetings relating to the development of educational material	Educational material	
	Outputs	Details
<p><i>June 2021</i></p> <p>39 At its June 2021 meeting (M181), the Board considered stakeholder feedback that there are divergent views on whether an asset should be recorded and if an asset exists then what is the nature of the asset.</p> <p>40 AASB staff released an the AASB Staff FAQs in 2020 which provided some guidance and an example for a grant received in arrears, however based on the feedback from stakeholders, the divergence in practice was still present with some preparers not recognising an asset (or revenue) until the funds are received, others recognising a receivable when the work has been performed and others recognising a contract asset or accrued income balance. Assurance practitioners had divergent views as well.</p> <p>41 The Board decided to add a narrow-scope project to its work program to consider the implementation issues and the issues to be addressed in the project would be considered further at a future meeting.¹⁶</p> <p><i>November 2021</i></p> <p>42 At its November 2021 meeting (M184), the Board decided that additional educational material should be developed regarding the recognition of assets under contracts in the scope of AASB 1058 when grants are received in arrears.¹⁷</p> <p><i>August 2022</i></p> <p>43 At its August 2022 meeting (M189), staff outlined that notwithstanding that this matter was covered in the educational webinar, it was understood that the accounting for grants received in arrears continues to be problematic and divergence continued to exist. Therefore, staff recommended this topic be added to this PIR.</p>	<p><i>AASB Staff FAQs: AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 16 Leases.</i></p>	<p>Further to the information included in footnote 3 regarding question '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 performance?':</p> <p>FAQ Scenario 1a – Non-capital grant and FAQ 1b – Capital grant illustrate grant scenarios where cash is received in arrears. These have parallels to Illustrative Examples 8A and 9 in AASB 1058 however these illustrate examples where cash is received in advance.</p>
	<p><i>Income of not-for-profit entities: AASB 15 and AASB 1058 – AASB staff education session</i></p>	<p>Topics included discussion of grants received in arrears.</p>

16 [June 2021 Meeting Minutes](#).

17 [November 2021 Meeting Minutes](#).

IFRS 15 Revenue from Contracts with Customers Basis for Conclusions

- 44 The [IFRS 15 Basis for Conclusions](#) includes paragraphs BC322 to BC326 which explain the relationship between a contract asset and a receivable. As included in paragraph BC323, the IASB ‘noted that making the distinction between a contract asset and a receivable is important because doing so provides users of financial statements with relevant information about the risks associated with the entity’s rights in a contract. That is because although both would be subject to credit risk, a contract asset is also subject to other risks, for example, performance risk.’

IPSAS 47 Revenue and the INPAG Exposure Draft 2

- 45 Similarly to AASB 1058, IPSAS 47 and the INPAG Exposure Draft 2 (ED) include some guidance relating to grants received in advance however no specific guidance referring to grants received in arrears.
- 46 However, it is noted that paragraph G23.32 of the INPAG ED includes ‘Grant revenue from transactions under an OFA¹⁸ will result in an asset (cash, goods, services or another asset) and revenue for an NPO. The NPO will usually recognise both the asset and revenue when the asset is received or when the amount becomes receivable.’
- 47 In relation to OFA, the INPAG ED also includes:
- (a) ‘An NPO recognises revenue from an OFA when the resource is received or receivable, whichever is earlier. In most cases, this will be when the resource is received, as the NPO will usually not have a right to the resource prior to that point’ (paragraph AG23.33); and
 - (b) ‘However, where an OFA is in place, it is possible that this will give the NPO the right to the resource at an earlier point. This right may enable the NPO to recognise revenue even if it has not already received the resource’ (paragraph AG23.34).
- 48 The INPAG ED also includes the concept of an enforceable grant asset for the amount of the transaction consideration to which the NPO is entitled for progress towards complete satisfaction of the enforceable grant obligation and for which the grant is yet to be received (paragraph G23.43(c)). AASB staff consider this to be similar to an AASB 15 contract asset however, under INPAG, the notion of an enforceable grant arrangement is a broader concept than contracts with customers in AASB 15.
- 49 Further, INPAG ED Figure 23.2: *Decision tree illustrating how to apply Part I* includes a step ‘recognise revenue when the NPO controls the resources in the transaction and these can be measured reliably. This will be when the NPO receives the amount or, if earlier, when the amount becomes receivable.’

18 An OFA is an other funding arrangement with a grant recipient that is not an enforceable grant arrangement.

Staff analysis and preliminary views

50 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](#) (November 2023), 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.

Feedback themes/ areas	Staff analysis and preliminary views
Achieving a particular outcome	<p>51 A stakeholder raised the concern that entities may not be recognising grants received in arrears as a receivable, where the requirements of AASB 9 are met, because of the concern about having to recognise the associated income in a manner that does not match the recognition of related expenses. Staff note that this is despite the recognition of a receivable under AASB 9 is independent from the AASB 1058 recognition of income. This is similar to the feedback received as part of Topic 3: Differences between management accounts and statutory accounts and alternative revenue recognition models (Alternative models) which is summarised in Agenda Paper 3.2.2 (October 2023) and staff's preliminary view's on next steps included in that paper may assist in reducing this issue. For example, exploring how the concepts of compliance obligation and enforceable grant obligations in IPSAS 47 and the INPAG ED could be incorporated into AASB 1058 which may allow entities to recognise income when the entity performs because they are broader concepts than an AASB 15 performance obligation. If the Board decides that it wants to explore the application of these concepts, staff consider the interaction between AASB 1058 and other Standards will also need to be reconsidered.</p>
No observations of differences & Clarify accounting under AASB 1058 & Recognition of a receivable & Contract asset & ITC 50 example & Practical application issues & AASB Staff FAQs educational material	<p>52 One stakeholder had not observed differences in practice however they noted it may be possible where amounts are material. Other stakeholder feedback indicates clarity is needed in how to account for grants received in arrears:</p> <ul style="list-style-type: none"> (a) stakeholders consider where the requirements of AASB 9 are met a receivable can be recognised applying that standard; (b) another stakeholder suggested that a receivable can be met where the requirements of the Conceptual Framework are met. Staff concur that this could be an appropriate outcome of the application of AASB 1058 paragraph 8 (see paragraph 5). In the absence of an accounting standard applying, the requirements of paragraph 10 to 12 of AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> would be referred to determine whether the definitions, recognition criteria and measurement concepts in the Conceptual Framework would apply. Staff note that the AASB Staff FAQs also includes the application of AASB 108 when no other accounting standard requirements apply; (c) auditors may be requiring contract assets to be recognised where there is no contract with a customer; (d) in response to the example included in ITC 50 (see paragraph 7), a stakeholder had experienced a similar situation and not recognised income until the funds were received because it was not sufficiently specific. Other stakeholders noted diversity in views on accounting for grants received in arrears for similar obligations; and (e) stakeholder feedback is mixed in regards to the usefulness of the AASB Staff FAQs, with one stakeholder indicating it had been helpful and if they are being applied correctly diversity in practice should be reduced. This stakeholder considered that the AASB Staff FAQs should be formalised as authoritative guidance in the Standards. However, four stakeholders raised concerns about the AASB Staff FAQs, indicating that they should be reviewed and editorial changes made to clarify the accounting in relation to grants received in arrears. <p>53 Given the feedback summarised in paragraph 52, staff's preliminary view on next steps is that the AASB Staff FAQs educational material could be reviewed and updated, using the feedback received, to clarify the accounting for grants received in arrears. This may include considering how the INPAG ED guidance outlined in paragraphs 46 to 49 could be used. Staff's preliminary view on next steps in Topic 1: Sufficiently specific (Agenda Paper 7.2 (November 2023)) could also be beneficial. The view was that depending on the Board's decision about whether and how to address the PIR findings, an</p>

Feedback themes/ areas	Staff analysis and preliminary views
	<p>effort to consolidate educational material and make it more accessible (e.g. via Illustrative Examples) could be considered.</p> <p>54 Staff note the Board decided, when developing AASB 1058, that the Standard should not address the recognition of assets that are already the subject of existing Accounting Standards (see paragraph 8 and footnote 4). The Board originally proposed including the recognition of assets in AASB 1058 however, following the feedback from the consultation on the exposure draft, decided against this. Therefore, staff's preliminary views on next steps is that no changes to AASB 1058 should be made to specify how to account for an asset that may arise from performance before funding is received. However, as noted in paragraph 51, if the Board agree to exploring how the concepts of compliance obligation and enforceable grant obligation could be incorporated into AASB 1058, as part of any amendments to AASB 1058 that may be proposed, the Board could consider incorporating corresponding asset recognition guidance into the Standard.</p> <p>55 Other stakeholders commented that they considered the scenario in the ITC 50 example (included in paragraph 7) to be sufficiently specific and that the confusion in determining what is sufficiently specific is contributing to the divergent views in accounting for grants received in arrears. The differing opinion on this topic's ITC 50 example is similar to the differing interpretations of the ITC 50 examples included in Topic 1: Sufficiently specific criterion and the legal interpretation of agreements (see Agenda Paper 7.2 (November 2023)) and the feedback on the complexity of making judgements in relation to what agreements are sufficiently specific. Staff's preliminary views on next steps included in the Topic 1 paper (for example, clarifying and providing additional guidance to assist with the judgement NFP entities are required to apply and to increase consistent application of the sufficiently specific criterion) and in paragraph 51 and 53 above, are anticipated to assist stakeholders with these concerns.</p>
Capital grants	<p>56 Stakeholders have requested clarity about whether the contract asset concept in AASB 15 applies to capital grant agreements. This is in line with the feedback received as part of ITC 50 Topic: 2: Capital grants (See Agenda Paper 7.3 (November 2023)) about the uncertainties in regards to whether the requirements of AASB 15 apply to capital grants.</p> <p>57 Staff note that paragraph AASB 1058 paragraph B16 states 'The obligation to acquire or construct the non-financial asset is accounted for similarly to a performance obligation under AASB 15.' As included in Agenda Paper 7.3, AASB 1058 paragraph BC98 outlines that the Board decided that the accounting for capital grants should reflect the approach in AASB 15. It was staff's preliminary view on next steps in Topic 2 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 (paragraph 66 and 79 of the Agenda Paper).</p> <p>58 Further, as included in Agenda Paper 8.0 Cover Memo of this meeting, at the November 2023 meeting, a Board member recommended guidance is developed to clarify the types of non-financial assets that could be subject to capital grant accounting. This was contrary to staff's preliminary views on next steps that no further guidance was needed. They considered guidance is needed because the stakeholder (ACAG) who raised the issue has technical accounting resources however they are still experiencing complexity in determining whether inventories can be accounted for as a capital grant. In line with this and as part of any guidance that is developed, staff's preliminary view on next steps is that the work in this area could include clarifying whether the contract asset concept in AASB 15 applies to capital grants.</p>
AASB 120	<p>59 A stakeholder questioned the recognition of grant income in arrears pursuant to the requirements of AASB 120. Whilst AASB 120 applies to for-profit entities and therefore staff consider this issue to be outside the scope of this NFP Income PIR, staff also note concerns with AASB 120 were outlined in ITC 50 Topic 3: Alternative models (Agenda Paper 3.2.2 (October 2023)).</p>

Question to Board members

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