Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Post-Implementation Reviews**	**Meeting:**	August 2022 (M189)
Topic:	**NFP domestic PIRs – Income for Not-for-Profit Entities *(AASB 15* and *AASB 1058)***	**Agenda Item:**	8.2
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		Project Priority:	Medium
		Decision-Making:	Low
		Project Status:	Initial deliberations

Objectives of this paper

1. This staff paper considers the topic of income for not-for-profit (NFP) entities. The objective of this staff paper is:
   (a) for the Board to confirm its previous decisions regarding which matters identified during the short-term narrow scope amendments project should be considered as part of the PIR;
   (b) to provide the Board with a summary of known issues arising from the implementation and application of the income for NFP entities requirements that have been identified via other means; and
   (c) to review the key reasons for issuing the initial income pronouncements, why Board action was necessary, and the Board's due process before issuing them;

   to assist staff in drafting the PIR ITC.

Background and reasons for bringing this paper to the Board

2. AASB 1058 *Income of Not-for-Profit Entities* and AASB 15 *Revenue from Contracts with Customers* Appendix F *Australian Implementation Guidance for Not-for-Profit Entities* apply to annual reporting periods beginning on or after 1 January 2019. For entities with a 30 June reporting date, this means the requirements were first applied mandatorily in the financial year ending 30 June 2020.
3. In accordance with paragraph 7.15.1 of the *AASB Due Process Framework for Setting Standards*, the Board would generally undertake a PIR of a new domestic Standard when the new requirements have been applied for two years. In addition to this, as the income for NFP entities requirements were subject to a Regulatory Impact Statement-like process, the PIR requirements of the Office of Best Practice Regulation require a PIR to be completed by 1 January 2024 (being five years after implementation).

4. At its September 2021 meeting, the Board considered a proposed PIR process and a strategy for undertaking PIRs on the domestic Australian Accounting Standards, including Interpretations[1] on issue.

5. The Board agreed to progress its PIR work in tranches over the 2021-2025 period. It concurred with the staff recommendation that its first tranche of PIR work (the 'Category 1 PIRs') should primarily comprise the review of topics that could be expected to inform the Board's decision making on its NFP Private Sector Financial Reporting Framework project (the 'NFP domestic PIRs').

6. The NFP domestic PIRs consider Standards addressing the topics of:

   (a) income;

   (b) control/consolidation;

   (c) the definition of a structured entity;

   (d) related party disclosures; and

   (e) SPFS basis of accounting – compliance with Australian Accounting Standards.

7. The Board considered the topics of related party disclosures, SPFS basis of accounting – compliance with Australian Accounting Standards, control/consolidation and the definition of a structured entity at the May and June 2022 meetings. At the May meeting, the Board also received an update on the preliminary findings from the literature review. This paper continues the Board's PIR discussions, as set out in the timeline reviewed by the Board at its May 2022 meeting.

Structure of this paper

8. This staff paper is set out as follows:

   (a) issues to be considered as part of the PIR following the short-term, narrow scope project performed in 2021 and other implementation and application matters raised since then (paragraphs 10-11); and

   (b) project timeline and next steps (paragraph 12).

9. The Appendices to this paper provide a high-level overview of:

   (a) the Board's rationale for issuing the pronouncements;

   (b) key requirements of AASB 1058;

   (c) key requirements of AASB 15 Appendix F;

   (d) key requirements of AASB 9 *Financial Instruments* Appendix C; and

   (e) the Board's process in developing each Standard.

   There are no questions for Board members in the Appendices.

1 For the purposes of the PIR, "domestic" references both a Standard issued as AASB 10XX and NFP amendments, including guidance, to the suite of Standards that incorporate IFRSs.

Issues identified to date

10. Staff are aware of a number of issues relating to income for NFP entities that have been raised either through the short-term, narrow scope project[1], in response to the pronouncements issued or through other stakeholder engagement.

11. These issues are summarised in Table 1 below. The issues are categorised into three sections:

    (a) topics that the Board has previously decided to consider as part of the PIR;

    (b) other topics where staff are aware that stakeholder concerns remain, despite standard-setting activity being undertaken by the Board; and

    (c) topics where staff do not consider further work is needed.

Table 1: Topics identified to date through the short-term, narrow scope project:

Issue identified	Summary	Outputs to date	Staff recommendation
a) To be considered as part of the PIR (per Board decisions on previous projects)			
Sufficiently specific criterion	A performance obligation must be sufficiently specific for a contract (or part of a contract) to be included in the scope of AASB 15. Stakeholders indicated that the term 'sufficiently specific' was unclear, and there was confusion in practice about how the term should be applied. Board decision in September 2021 was to consider this issue as part of the PIR process.[2]	Covered in the educational webinars (Feb / March 2022)	Consider as part of the PIR.
Capital grants	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.	Covered in the educational webinars (Feb / March 2022)	Consider as part of the PIR

1 The outputs of this project were AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15*, educational webinar, updated staff FAQ's, key facts document.

2 See Agenda Item 5.1

Issue identified	Summary	Outputs to date	Staff recommendation
	Board decision in November 2021 was to consider this issue as part of the PIR process[3]		
Differences between management accounts and statutory accounts	Preparation of different accounts for management and statutory purposes – several preparers noted that, due to the confusion caused by recognition of revenue on receipt for contracts where the entity believes there are activities to be met, but the contract is not within the scope of AASB 15, their internal reporting is based on the activities of the project as this is the perceived information required by Boards. Most donor reporting is also on this basis except for statutory financial reporting. Board decision in November 2021 was to consider this issue as part of the PIR process[4]	None	Consider as part of the PIR
Matching concept	Where funds are received, particularly in the form of a grant, many stakeholders have noted there are certain activities that have to be performed and therefore, they believe that the matching concept would provide more useful information to users and would be consistent with the requirements of AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* for for-profit entities. Board decision in November 2021 was to consider this issue as part of the PIR process[3]	None	Consider as part of the PIR
Legal interpretation of agreements	The legal interpretation would allow non-performance of contract claim, but Australian Accounting Standards do not allow the requirements to be classified under AASB 15 – some stakeholders raised concern that the extent of specificity needed to meet the sufficiently specific criteria to be within the scope of AASB 15, and therefore match revenue and expenses, seems to be a much higher threshold than a legal interpretation of whether an entity has breached the requirements of an agreement and not satisfied relevant performance obligations.	None	Consider as part of the PIR

3 See Agenda Item 11.1
4 See Agenda Item 11.1

Issue identified	Summary	Outputs to date	Staff recommendation
	Board decision in November 2021 was to consider this issue as part of the PIR process[3]		
Principal v agent	Concerns were raised about Illustrative Example 3A regarding whether a financial liability should be recognised if an entity's obligation is to transfer funds to other entities. Board decision in April 2022 was to consider this issue as part of the PIR process[5]	An amended example was included in ED 318. However, the majority of respondents preferred that the Board consider any changes to this example only as part of the PIR.	Consider as part of the PIR
b) To be considered as part of the PIR			
Grants received in arrears	Divergence in practice for grants received in arrears exists 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 have divergent views as well.	Covered in the educational webinar (Feb / March 2022)	Notwithstanding that this matter was covered in the educational webinar, staff understand that this issue continues to be problematic, and divergence continues to exist. Therefore, staff recommend that this is added to the PIR. **See Question 1 to the Board.**
Termination of convenience clauses	Several stakeholders hold the view that termination for convenience clauses give rise to a liability for any unspent funds where the income is within the scope of AASB 1058, which allows the entities to recognise the funds as income when the related expenses are incurred, while some entities, who believe that the termination for convenience clauses are inserted only for specific purposes (e.g., change in government), are recognising revenue on receipt. In contrast, other entities are deferring revenue recognition to match the revenue with future expenses, resulting in divergence in practice.	Covered in the educational webinar (Feb / March 2022)	Notwithstanding that this matter was covered in the educational webinar, staff understand that this issue continues to be problematic, and divergence continues to exist. Therefore, staff

5 See Agenda Item 5.1

Issue identified	Summary	Outputs to date	Staff recommendation
			recommend that this is added to the PIR. **See Question 1 to the Board.**
c) No further work is needed			
Peppercorn cost exemption	NFP entities are concerned that if, or when, the cost exemption is lifted, then retrospective application rather than prospective could be required, and they will be required to obtain fair value information for leases currently in place.	AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15* noted in the basis for conclusions that the Board decided that the cost exemption is ongoing for NFP private sector entities.	None proposed – staff do not consider further work is needed.
Upfront payments	Diversity of practice in accounting for upfront fees by NFP entities exists. Stakeholder concerns primarily relate to an understanding of the concepts in the Standard.	Covered in the educational webinars (Feb / March 2022) Example 7A added to AASB 15 via AASB 2022-3.	None proposed – staff do not consider further work is needed.
Capital grants	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.	Covered in the educational webinar (Feb / March 2022)	None proposed – staff do not consider further work is needed.
Principles of the standards	A number of stakeholders reported a lack of understanding of the principles of AASB 1058 and AASB 15 and the interaction between them for NFP entities. In particular, a number of preparers highlighted the difficulty in explaining the financial outcomes resulting from the application of these Standards to Boards, donors and grant providers; for example, when revenue was recognised on receipt of funds and expenses were recognised in the following financial periods.	Covered in the educational webinars (Feb / March 2022) Key facts document available on the AASB website covering high-level principles.	None proposed – however, staff recommend this matter be revisited subject to stakeholder feedback

Issue identified	Summary	Outputs to date	Staff recommendation
			received on the PIR.[6]
Enforceable criteria	Stakeholder feedback indicated that the Standard was unclear whether refundability was sufficient to prove enforceability and whether receipt of funds without a signed contract yet being issued could be part of an enforceable contract.	Covered in the educational webinar (Feb / March 2022)	None proposed – staff do not consider further work is needed.
Documentation	There is confusion around whether documents other than the grant agreement can and should be considered in forming opinions regarding the relevant Standard. This results in diversity of accounting treatment.	Covered in the educational webinar (Feb / March 2022)	None proposed – staff do not consider further work is needed.
Principal v agent	Stakeholder feedback has indicated there are a number of contracts in place in the NFP sector that are causing confusion and diversity of accounting treatment concerning whether the revenue should be recorded on a net or gross basis and whether a financial liability should be recognised.	Covered in the educational webinar Feb / March 2022	None proposed – staff do not consider further work is needed.
Scope of the standards	Some preparer stakeholders noted that they found it confusing to understand the relevant Standard for non-operating revenue streams and questioned whether there was a reference document to allow them to understand the appropriate source for the accounting treatment to reduce time spent looking through multiple Standards which were not applicable.	Covered in educational webinars (Feb / March 2022) Staff FAQ issued to provide additional guidance	None proposed – staff do not consider further work is needed.

6 Staff note that during the FRC-lead PIR of AASB 1049, feedback was received that the adoption of AASB 1049 might give rise to some challenges in the public sector. The AASB 1049 PIR report notes that “The adoption of this standard may cause some jurisdictions to defer the recognition of some capital grants to a future accounting period. The provider of a grant may expense the payment in an earlier period. In contrast, the GFS Manual recognises the payment and receipt of grants when the payment is made. This will create new differences between the GAAP data and GFS. Most differences in treatment between GAAP and GFS will be timing differences, rather than permanent differences. As indicated in the Basis for Conclusion of AASB 1058, when AASB 1058 was developed, the impact of the standard on harmonisation with the GFS was considered.28 The Board advised that some differences in GFS and the GAAP requirements could only be addressed by making changes to the underlying principles in AASB 1058 and AASB 15, which it was not willing to do. It noted that convergence differences could be accounted for in the explanatory note to the accounts.” Subject to finalisation of the FRC PIR, this matter may require further consideration as part of the NFP income PIR.

Table 2: Issues identified to date via other means (e.g. responses to prior standard-setting activity):

Issue identified	Summary	Outputs to date	Staff recommendation
Statutory receivables – subsequent measurement	Stakeholders noted that the Australian amendments to AASB 9 *Financial Instruments* in paragraph AUS 2.1.1 apply only to initial measurement but not subsequent measurement resulting in inconsistency. Further, the initial measurement under AASB 9 added considerably to the workload on the initial measurement of such receivables.	Paragraph Aus 2.1.1 to AASB 9 was added via AASB 2016-8 *Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* (refer to Appendix 2 for background).	Domestic stakeholders raised this matter as part of the feedback on the IFRS 9 *Financial Instruments* PIR, and at the time, staff recommended it be considered as part of the domestic PIRs. Staff recommend this issue be added to this PIR since it relates to income recognition. Staff note that when the initial measurement requirements for statutory receivables were added to AASB 9, subsequent measurement was not addressed as further consideration was required by the Board, and the IPSASB had recently commenced a project to consider public sector-specific financial instruments. The IPSASB project was completed in 2020.[7] However, the Basis for Conclusions to the Non-Authoritative amendments issued as part of the project note that as statutory receivables are not contractual, and do not meet the definition of a financial instrument they would be addressed as part of a separate project. Staff will continue to consider the work of the IPSASB as part of the PIR. **See Question 1 to the Board.**
Research grants	Stakeholders noted different interpretations of how paragraph 35(a) of AASB 15 applies in the case of research grants and decided that the analysis in the Illustrative Examples	The Board issued AASB 2019-6 *Amendments to Australian Accounting Standards –*	Although this issue has not recently been explicitly raised again with staff, based on anecdotal evidence and discussions with stakeholders, staff understand

7 The IPSASB initiated the Public Sector Specific Financial Instruments (PSSFI) project in 2015 to consider the appropriate accounting treatment for public sector items that are, or share characteristics of, financial instruments. The IPSASB issued a Consultation Paper in July 2016 which considered the recognition and measurement of public sector specific items. In August 2019 Exposure Draft (ED) 69, *Public Sector Specific Financial Instruments: Amendments to IPSAS 41*, Financial Instruments was issued. This ED proposed non-authoritative guidance to clarify the classification, recognition, and measurement of PSSFI. The final pronouncement, Non-Authoritative Amendments to IPSAS 41 *Financial Instruments* was issued in December 2020.

Issue identified	Summary	Outputs to date	Staff recommendation
	accompanying the Standard did not fully explain how to apply the paragraph. Paragraph 35(a) addresses whether the customer simultaneously receives and consumes the benefits provided by an entity's performance as the entity performs, as one basis for the entity transferring control of a good or service over time and therefore satisfying a performance obligation and recognising revenue over time.	*Research Grants and Not-for-Profit Entities,* which amended Illustrative Examples 4A and 4B and added Illustrative Example 4D to AASB 15 (refer to Appendix 1 for the background)	that the issue of AASB 2019-6 has not resolved all divergence in practice. Therefore, staff recommend this matter be added to the PIR. **See Question 2 to the Board.**

Questions for Board members

Q1: In respect of topics identified in Table 1, do Board members agree with the staff recommendation that:

(a) consistent with previous Board decisions, the topics in part a) should be considered as part of the PIR?

(b) grants received in arrears and termination of convenience (topics identified in part b)) should be added to the PIR?

(c) consistent with previous Board decisions, no further work is needed on the topics identified in part c)(c)?

If not, what do Board members suggest?

Q2: In respect of topics identified via other means (Table 2), do Board members agree with the staff recommendation that:

(a) consistent with previous Board decision, statutory receivables, which was raised during the IFRS 9 PIR, should be considered as part of the PIR?

(b) the satisfaction of performance obligations relating to research grants should be considered as part of the PIR?

Q3: Do Board members have any other comments on any of the issues identified in Table 1 or Table 2?

Next steps and project timeline for the NFP domestic PIRs

12. The following table contains the timeline approved in May 2022. Staff note that there are no changes to the overall timeline for the domestic PIRs, and the PIRs remain on schedule for completion by the end of 2023.

Staff's proposed timeline	Project milestones based on the PIR process
Planning phase	
Income 2020-2022	Step 4: Seek preliminary feedback from targeted stakeholders (as necessary) and review feedback received
Related party and SPFS basis of accounting topics only **Board meeting**: 18 May 2022	Steps 1, 2: Review of original project documentation and collation of identified issues.
Control/ consolidation and structured entities **Board meeting:** 22/23 June 2022	Steps 1, 2: Review of original project documentation and collation of identified issues.
June 2022 – September	Step 3: Finalise findings from academic research[1]
June 2022 – September 2022: *all topics except for income*	Step 4: Seek preliminary feedback from targeted stakeholders (as necessary) and review feedback received[2]

1 The revised timeline agreed with the Board at the May 2022 meeting indicated that staff would finalise the literature review in June for consideration at the September Board meeting. Whilst the literature review has not yet been finalised, it is in progress and on track for completion for the September Board meeting.

2 As staff have previously gathered initial feedback from targeted stakeholders relating to income of NFP entities as part of the Board's narrow-scope project on this topic, no additional targeted outreach is considered necessary.

Staff's proposed timeline	Project milestones based on the PIR process
Income **Board meeting:** 3 August 2022	Steps 1, 2: Review of original project documentation and collation of issues the Board are aware of.
Board meeting: 21/22 September 2022	Steps 5, 6: Prioritise issues identified in the planning phase to determine the scope of the consultation document and discuss steps 1–5 (as necessary) with the Board before developing the consultation document. Staff note that prior to the September 2022 meeting, the Board will have considered steps 1 and 2 for each of the topics covered by the NFP domestic PIRs. Therefore, discussion at the September meeting is expected to be limited to providing Board members with an update on any findings from academic and relevant non-academic research, feedback obtained from stakeholders during targeted outreach and any sweep issues.
Outreach phase	
September 2022 – October 2022	Step 7: Draft consultation document. Step 8: Discuss draft consultation document with the Board and approve for issue. Staff intend to ask the Board to approve the ITC out-of-session either via the full Board or a subcommittee. Staff propose a comment period of approximately 150-days to align with the expected comment period for the NFP Private Sector Financial Reporting Framework Tier 3 Discussion Paper. Comments on the ITC are expected to close end of March 2023.
December 2022 – March 2023	Step 9: Undertake general and targeted outreach to seek stakeholder feedback on the consultation document.
Feedback and next steps	
Q2 2023 – Q3 2023	Step 10: Consultation comment period closes at the end of March 2023. Step 11: Review and summarise responses received on the consultation document and through outreach. Perform follow-up procedures where appropriate. Step 12: Identify possible 'next steps' to respond to findings. Staff will also review the IPSASB project documentation in relation to their revenue project[3] and the IASB's work on the *IFRS for SMEs Accounting Standard*.[4] Step 13: Discuss feedback and possible next steps with the Board.
Q4 2023	Step 14: Prepare a feedback statement, discuss it with the Board and publish the feedback statement.

Question for Board members
Q4: Do Board members have any comments on the project timeline and next steps?

3 The IPSASB have a current project on their work program to develop IPSAS for revenue transactions.
4 The IASB is carrying out a second comprehensive review of the IFRS for SMEs Accounting Standard.

Appendix 1 Income of NFP entities (AASB 1058 and AASB 15 Appendix F)

A1. This Appendix provides a high-level overview of:

(a) the Board's rationale for issuing AASB 1058 and AASB 15 Appendix F;

(b) key requirements of AASB 15 Appendix F;

(c) key requirements of AASB 1058; and

(d) the Board's process in developing the pronouncements, including subsequent amendments to assist with its implementation.

The Board's rationale for issuing AASB 1058 and AASB 15 Appendix F (based on extracts from the Basis for Conclusions to AASB 1058)

A2. Prior to the issue of AASB 1058 and AASB 15, the recognition and measurement requirements for transactions giving rise to income depended on whether the transaction was reciprocal or non-reciprocal in nature. The accounting for income arising from reciprocal transactions was predominantly addressed in AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The accounting for income arising from non-reciprocal transactions was addressed in AASB 1004 *Contributions*.

A3. The Board observed determining whether a transaction was reciprocal or non-reciprocal in practice was not always straightforward. Entities found it challenging to determine whether approximately equal value had been provided in exchange to the other party or parties to the transfer and contended that in many instances the immediate recognition of income in a non-reciprocal transaction did not faithfully represent the underlying financial performance of the entity. Diverse interpretations existed, with some entities recognising transactions with return obligations and specified performance outcomes as reciprocal transactions and some not.

A4. Constituents were particularly concerned about the income recognition requirements as applied to grants, appropriations and other transfers of assets made on the condition that the NFP entity deliver goods or services to nominated third parties. The Board heard that constituents who are preparers find it difficult to discuss financial information with grantors and donors and challenging to explain why a NFP entity needed additional resources when the financial statements indicated no such need. Users noted they did not think the financial statements were reflective of the economic reality of a NFP entity's financial circumstances. Having regard to the feedback from constituents, the Board decided to undertake a project to conduct a fundamental review of the income recognition requirements applying to NFP entities.

A5. The Board observed that the International Accounting Standards Board had completed developments in the accounting for revenue with the issue of IFRS 15 *Revenue from Contracts with Customers* in May 2014. The Board noted it still needed to determine what, if any, amendments and guidance would be required to enable NFP entities to apply the equivalent Australian Accounting Standard, AASB 15. In addition, the Board noted that the application of the performance obligation approach to revenue recognition adopted in AASB 15, using a broader concept of customer, had the potential to resolve some of the issues noted with AASB 1004.

A6. The Board also observed that various Australian Accounting Standards required a NFP entity to recognise assets received at fair value (or current replacement cost, in relation to inventories) only where the asset had been acquired for no or nominal consideration (for example, AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*). The Board perceived there to be a gap in the accounting for those transactions where an asset has been acquired for consideration that is below market but is more than nominal. The Board noted that under existing recognition and measurement rules at that time, an entity would likely not have recognised any income on the transaction, but measured the asset acquired at the amount of the consideration transferred. The Board considered that, in many instances, such transactions were unlikely to be conceptually different to those for which no consideration was transferred, and consequently decided to also consider the accounting for such transactions as part of this project.

Key requirements of AASB 1058 and AASB 15 Appendix F

A7. NFP private sector reporting entities must comply with Australian Accounting Standards such as AASB 1058 and AASB 15 when accounting for revenue and income. Other standards provide requirements for particular types of income, such as AASB 16 *Leases* and AASB 9 *Financial Instruments*).

A8. The principles and an overview of the two income standards for NFP entities have been summarised in the Key Facts Document issued in March 2022.

AASB 15 – Appendix F – a high-level summary

A9. Following the Board's review of AASB 15 in respect of the application to NFP entities, the Board decided to develop guidance for NFP entities, including addressing:

(a) how NFP entities should apply terminology used in AASB 15;

(b) when an agreement with another party creates enforceable rights and obligations; and

(c) how to identify when performance obligations exist, requiring a promise to transfer a good or a service to be specified in sufficient detail to be able to determine when the obligation is satisfied.

A10. In addition, the Board made amendments to the body of AASB 15:

(a) to require that transfers which enable an entity to acquire or construct a non-financial asset to be controlled by the entity be accounted for in accordance with AASB 1058, not AASB 15; and

(b) to clarify that any contract that is not enforceable or does not contain sufficiently specific performance obligations is not within the scope of AASB 15 for NFP entities.

AASB 1058 – a high-level summary

A11. AASB 1058 is a residual standard and applies to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable a NFP entity to further its objects and the receipt of volunteer services.

A12. An entity must apply the requirements of other Australian Accounting Standards (as relevant) to recognise an asset arising from a transaction from applying AASB 1058. Any related contributions by owners, increase in liabilities, decrease in assets, and revenue ('related amounts') are recognised in accordance with other Australian Accounting Standards (e.g., AASB 15). The excess between the initial carrying amount of an asset over the related amounts is recognised as income immediately.

A13. Where an NFP entity receives a transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset that is to be controlled by the entity, the entity shall recognise a liability measured at the carrying amount of the financial asset received from the transferor over any related amounts for performance obligations under AASB 15. Income is recognised in profit or loss when the NFP entity satisfies its obligations under the transfer.

A14. An NFP private sector entity may apply an accounting policy choice to elect to recognise volunteer services if the fair value of those services can be measured reliably, whether or not the services would have been purchased if they had not been donated. If recognised, volunteer services are recorded as an asset or an expense, while the related amounts are recognised in accordance with the applicable Australian Accounting Standards. Any excess of the fair value of the volunteer services over the recognised related amounts is recognised as income immediately in profit or loss.

The Board's process in developing AASB 1058 and AASB 15 Appendix F

A15. The project summary on Income of NFP entities provides significant detail on the development of AASB 1058 and the NFP-specific requirements of AASB 15, and paragraphs A16 to A20 provide a high-level overview of the key steps.

A16. As a consequence of its policy on transaction neutrality, the Board considered International Accounting Standards Board developments in the accounting for revenue; finalised with the issue of IFRS 15 *Revenue from Contracts with Customers* in May 2014 and noted it needed to determine what if any, amendments and guidance would be required to enable NFP entities to apply this Standard. In addition, the Board noted that applying the performance obligation approach to revenue recognition adopted in IFRS 15, using a broader concept of customer, could resolve some of the issues noted with AASB 1004. The Board also had regard to the work of the International Public Sector Accounting Standards Board (IPSASB) in developing its income recognition requirements for 'non-exchange' transactions.

A17. The Board's proposals for the accounting for income of NFP entities finalised in AASB 1058 were exposed for public comment in April 2015 as part of ED 260 *Income of Not-for-Profit Entities*. In developing ED 260, the Board considered both the feedback received on the immediate predecessor Exposure Draft, ED 180 *Income from Non-Exchange Transactions (Taxes and Transfers)*, and the requirements of AASB 15. ED 260 proposed both revisions to the income recognition principles in AASB 1004 and development of guidance and illustrative examples to assist NFP entities in implementing AASB 15.

A18. The Board held roundtables in Melbourne, Brisbane, Sydney and Canberra, and discussed the proposals at various forums, workshops and discussion groups. In addition, to help ensure it considered the implications of its proposals on entities with different objectives (e.g., charities, local government), the Board conducted several targeted meetings. The Board received comments on its exposed proposals both formally via 34 submissions on the Exposure Draft, and informally via email, meetings with constituents, presentations to various bodies and social media. About half the respondents to the Exposure Draft explicitly considered that overall, the proposals would result in financial statements that would be useful to users. Other respondents were supportive of the Board's efforts in this area but considered that the proposals did not fully address the concerns noted in paragraphs A3 and A4.

A19. In response to the feedback received, the Board amended or clarified various proposals in the Exposure Draft as part of issuing the final guidance. As part of its processes in this regard, the Board decided to establish a Project Advisory Panel consisting of preparers and advisors to provide input to the revised proposals. The Board considered that, overall, its decisions on this project did not significantly depart from those exposed in a manner that adversely affects entities applying the Standard. However, to satisfy that sufficient due process had been undertaken, the Board invited public comment on a discussion draft before the Board at its August 2016 meeting and a fatal flaw draft publicised via its weekly newsletter.

A20. The Board has issued the following pronouncements in relation to income of NFP entities:

<table>
<tr><th>Date</th><th>Pronouncement</th><th>Summary of pronouncement</th><th>Reason for issue</th></tr>
<tr><td>December 2016</td><td>AASB 1058 Income of Not-for-Profit Entities</td><td rowspan="3">Refer to paragraphs A9 – A14 for an overview of requirements in AASB 1058 and Appendix F of AASB 15

AASB 2016-7 deferred the effective date of AASB 15 for NFP entities by 12 months to annual reporting periods commencing on or after 1 January 2019 instead of 1 January 2018.

AASB 2016-8 added:
• Appendix F Australian implementation guidance for not-for-profit entities to AASB 15; and
• Appendix C Australian implementation guidance for not-for-profit entities to AASB 9 in relation to statutory receivables (refer to Appendix 2 of this paper).</td><td rowspan="3">Refer to Appendix 1 for the Board’s rationale for issuing AASB 1058 and Appendix F of AASB 15.
Refer to Appendix 2 for the amendments to AASB 9.</td></tr>
<tr><td>December 2016</td><td>AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities</td></tr>
<tr><td>December 2016</td><td>AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities</td></tr>
<tr><td>September 2018</td><td>AASB 2018-4 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors</td><td>This Standard primarily amends AASB 15 to add requirements and authoritative implementation guidance for application by NFP public sector licensors to transactions involving the issue of licences.

The amendments to AASB 15 include:
a. expanding the scope of AASB 15 to include non-contractual licences;
b. guidance distinguishing a licence from a tax;
c. guidance clarifying the types of licences issued by NFP public sector licensors;
d. guidance clarifying the application of the principles in AASB 15 to licences that are not within the scope of other Australian Accounting Standards; and</td><td>Constituents’ feedback received during the AASB’s Service Concession Arrangements: Grantors project (which addressed some public sector licences) identified there was a risk that revenue from licences issued by NFP public sector licensors could be materially understated (revenue is deferred when it should be recognised immediately) or overstated (revenue is recognised immediately when it should be recognised over time) in the absence of guidance on how AASB 15 applies.

When commencing this project the Board noted diversity in practice in relation to the accounting for revenue from licences, in particular non-IP licences (eg casino and gaming licences). Later investigation indicated that whilst the qualitative number of</td></tr>
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		e. providing recognition exemptions for short-term licences and licences issued for a low transaction price. The Standard also makes amendments to AASB 16 which clarify that licences that are in substance leases or contain leases, except licences of intellectual property, fall within the scope of AASB 16.	licence transactions is significant, the quantitative impact is unlikely to be significant to the public sector.
December 2018	AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*	This Standard amends AASB 1 *First-time Adoption of Australian Accounting Standards*, AASB 16, AASB 117 *Leases* (superseded by AASB 16), AASB 1049 *Whole of Government and General Government Sector Financial Reporting* and AASB 1058 to provide a temporary option for NFP entities to not apply the fair value initial measurement requirements for right-of-use assets arising under leases with significantly below-market terms and conditions principally to enable the entity to further its objectives. The Standard requires an entity that elects to apply the option (i.e., measures a class or classes of such right-of-use assets at cost rather than fair value) to include additional disclosures in the financial statements to ensure users understand the effects on the financial position, financial performance and cash flows of the entity arising from these leases.	Some stakeholders expressed difficulties in applying the principles in AASB 13 *Fair Value Measurement* in determining the fair value of right-of-use assets arising under concessionary leases, including how often-significant restrictions on the right of use of the underlying assets and the specialised nature of the underlying assets should be incorporated in the valuation of right-of-use assets arising from concessionary leases. The Board considered the prevalence and magnitude of concessionary leases in the NFP sector and the significance of restrictions on rights of use of the underlying assets in many cases. The Board also noted that a temporary option for NFP lessees to not measure a class (or classes) of right-of-use assets at initial recognition at fair value for concessionary leases would avoid undue cost and effort being incurred by preparers in applying AASB 13 in the absence of additional guidance.
December 2019	AASB 2019-6 *Amendments to Australian Accounting*	Provides an extended implementation period for entities with December year-ends for research grants received. The application of AASB 15 and AASB 1058 to other sources of income is not extended. The option to	The Board became aware of different interpretations of how paragraph 35(a) of AASB 15 applies in the case of research grants and decided that the analysis in the Illustrative Examples

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	Standards – Research Grants and Not-for-Profit Entities	extend the implementation period applies at the entity level and is not available on an individual research grant basis. This Standard also makes amendments to Illustrative Examples 4A and 4B accompanying AASB 15 to clarify the analysis of how paragraph 35(a) of AASB 15 applies in respect of research grants and the transfer of research findings. The amendments do not change the requirements of AASB 15 or the conclusions of the Illustrative Examples. A further example, Example 4D, is added to illustrate a case with periodic performance obligations.	accompanying the Standard did not fully explain how to apply the paragraph. Paragraph 35(a) addresses whether the customer simultaneously receives and consumes the benefits provided by an entity's performance as the entity performs, as one basis for the entity transferring control of a good or service over time and therefore satisfying a performance obligation and recognising revenue over time.
December 2019	AASB 2019-8 *Amendments to Australian Accounting Standards – Class of Right-of-Use Assets arising under Concessionary Leases*	The Standard makes amendments to AASB 16 and AASB 1049 to: a. specify for NFP entities that right-of-use assets arising under concessionary leases can be treated as a separate class of right-of-use assets to right-of-use assets arising under other leases for the purposes of AASB 16; and b. provide an option for a Whole of Government and General Government Sector to measure right-of-use assets arising under concessionary leases at cost or at fair value in subsequent measurements.	Feedback received that public sector entities preparing Whole of Government and General Government Sector financial statements would need to revalue their right-of-use assets arising under concessionary leases (and other leases) at fair value at subsequent measurement to satisfy the requirements of AASB 1049 to elect accounting treatments in Accounting Standards that align with the principles in the ABS GFS Manual. The Board considered the issue and decided to provide an option for the Whole of Government and the General Government Sector to measure right-of-use assets arising under concessionary leases at cost or at fair value in subsequent measurements, which is an extension of the existing temporary relief provided in AASB 2018-8 in relation to initial recognition. Stakeholders also requested clarification of whether right-of-use assets arising under concessionary leases can be treated as a separate class of right-of-

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			use assets to right-of-use assets arising under other leases so that entities can have the option to measure right-of-use assets arising under concessionary leases under a different basis to right-of-use assets arising under other leases.
May 2022	AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit*	The Standard adds Illustrative Example 7A to the examples attached to AASB 15 to clarify the accounting for upfront fees. The amendments do not change the requirements of AASB 15.	Issue of accounting for upfront fees raised during the short-term, narrow scope project and request for a more generic example.

A21. Staff have issued the following documents / educational guidance in relation to this project:

(a) Key Facts Document – March 2022

(b) Staff FAQs – last updated May 2022

(c) AASB webinar – February / March 2022.

Appendix 2 Statutory receivables

A22. This Appendix provides a high-level overview of:

(a) the Board's rationale for issuing guidance on statutory receivables; and

(b) the key requirements of AASB 9 Appendix C.

The Board's rationale for issuing guidance on statutory receivables (based on extracts from the Basis for Conclusions to AASB 2016-8)

A23. The Board observed that entities with statutory receivables, such as from taxes and fines, would not be required to apply AASB 9 to those receivables as they are not financial assets as defined in AASB 132 *Financial Instruments: Presentation* because there is no contract that provides the entity with the right to future cash flows. However, the Board held the view that the initial fair value measurement requirements of AASB 9 are the most appropriate for the types of receivables under consideration as the economic substance of contractual receivables and receivables arising from statutory requirements is similar at initial recognition and therefore decided to require that AASB 9 be applied for the initial measurement of such receivables. The Board also considered that requiring entities to apply AASB 9 for the initial measurement of non-contractual receivables arising from statutory obligations addressed the uncertainty surrounding the appropriate treatment of those receivables.

A24. Accordingly, the Board decided to amend AASB 9 to require that non-contractual receivables arising from statutory requirements should initially be measured in accordance with AASB 9 as if those receivables were financial instruments. The Board considered whether the subsequent measurement requirements of AASB 9 should also apply to statutory receivables; however, the Board noted:

(a) constituent feedback indicating the impact of the subsequent measurement requirements of AASB 9 needs further consideration; and

(b) the International Public Sector Accounting Standards Board had recently embarked on its Public Sector Specific Financial Instruments project to consider requirements for public sector financial instruments that are not within the scope of IFRS 9 *Financial Instruments*.

A25. Accordingly, the Board decided not to require entities to apply the subsequent measurement requirements of AASB 9 to statutory receivables. Instead, the Board decided to monitor the IPSASB's project and consider the subsequent measurement of statutory receivables in a future project.

A26. The Board noted that applying AASB 9 only for initial recognition of non-contractual statutory receivables could cause confusion and therefore decided to add guidance to accompany AASB 9.

Key requirements of AASB 9 Appendix C

A27. Paragraph Aus2.1.1 was added to AASB 9 as follows "in respect of not-for-profit entities, the initial recognition and measurement requirements of this Standard apply to non-contractual receivables arising from statutory requirements as if those receivables are financial instruments."

A28. Appendix C provides guidance to assist NFP entities to determine whether particular transactions or other events, or components thereof, are within the scope of this Standard. If a transaction is outside the scope of AASB 9, the recognition and measurement of the asset and income arising from the transaction may instead be specified by another Standard, such as AASB 1058.