DISCUSSION DRAFT FOR AASB MEETING 30-31 AUGUST 2016

AASB Standard

AASB 10XX
[Month] 2016

Income of Not-for-Profit Entities

Australian Government

Australian Accounting Standards Board

Obtaining a copy of this Accounting Standard

This Standard is available on the AASB website: www.aasb.gov.au.

Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Phone: (03) 9617 7600
E-mail: publications@aasb.gov.au
Website: www.aasb.gov.au

Other enquiries

Phone: (03) 9617 7600
E-mail: standard@aasb.gov.au

ISSN 1036-4803

Contents

Australian Accounting Standard AASB 10XX *Income of Not-for-Profit Entities* is set out in paragraphs 1 – 53 and Appendices A – D. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. AASB 10XX is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations, and AASB 1057 *Application of Australian Accounting Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

Preface

To be included in fatal flaw draft, which will be made available in September 2016.

Accounting Standard AASB 10XX

The Australian Accounting Standards Board makes Accounting Standard AASB 10XX *Income of Not-for-Profit Entities* under section 334 of the *Corporations Act 2001*.

Kris Peach
Dated …[date] Chair – AASB

Accounting Standard AASB 10XX
Income of Not-for-Profit Entities

Objective

1 **This Standard sets out principles for the recognition, measurement, presentation and disclosure of inflows of resources that result in the initial recognition of an asset, as well as resources in the form of volunteer services. The objective is to ensure a not-for-profit entity provides relevant information about an inflow of resources in a manner that faithfully represents the transaction or event. This information provides a basis for users of financial statements to assess the effects of inflows of resources on the financial position, financial performance and cash flows of an entity.**

2 An inflow of a resource (or a net inflow of resources) in the form of volunteer services or that results in the initial recognition of an asset may involve:

(a) a transfer of a resource (such as cash or another financial asset, a good or a service); or

(b) a net transfer of resources, whereby the entity obtains a resource that has an initial carrying amount in excess of a related liability incurred by the entity.

Meeting the objective

3 To meet the objective in paragraph 1, other than certain specified exceptions, the core principle of this Standard is that, for each inflow of resources, an entity shall initially recognise:

(a) an asset representing the inflow of resources, measured at fair value;

(b) any related *contributions by owners*, liabilities, and revenue, measured at the amount specified by another Australian Accounting Standard specifically addressing the transaction or event; and

(c) related income or a liability, representing the residual amount of resources received.

4 This Standard:

(a) provides guidance as to when control of a resource is obtained;

(b) requires, other than when certain specified conditions are met, an entity to recognise income in the statement of profit or loss and other comprehensive income upon transfer of an inflow of resources (or net inflow of resources); and

(c) requires an entity to apply the subsequent recognition and measurement requirements of other Australian Accounting Standards to any applicable assets and related liabilities arising from an inflow of resources. This Standard identifies those other Australian Accounting Standards.

5 The *Framework for the Preparation and Presentation of Financial Statements* explains income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions by equity participants (that is, owners). This Standard addresses income arising from inflows (or a net inflow) of assets that result in increases in equity, other than those relating to contributions by owners or which is addressed by another Standard (eg AASB 15 *Revenue from Contracts with Customers*). Other Australian Accounting Standards (eg AASB 1004 *Contributions*) address income arising from decreases of liabilities and the accounting for contributions by owners.

6 An entity shall apply the requirements of this Standard to each inflow of a resource (or net inflow of resources) as represented by the substance of the transfer, rather than its legal form or the description given to it (for example, grants or donations), so as to provide a faithful representation of the economic phenomena.

Scope (paragraphs B2 – B8)

7 An entity shall apply this Standard to all inflows of resources that result in the initial recognition of an asset, except inflows arising in connection with:

(a) business combinations within the scope of AASB 3 *Business Combinations*;

(b) insurance contracts within the scope of AASB 4 *Insurance Contracts*;

(c) income taxes within the scope of AASB 112 *Income Taxes*;

(d) leases within the scope of AASB 117 *Leases* (or AASB 16 *Leases*, when applicable), other than leases described in paragraph 10; and

(e) restructures of administrative arrangements within the scope of AASB 1004.

8 This Standard does not apply to gains on remeasurement of an asset.

9 This Standard applies to not-for-profit entities and financial statements as set out in AASB 1057 *Application of Australian Accounting Standards* (as amended). Other Australian Accounting Standards (including AASB 15 and AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*) specify the accounting for inflows of resources in respect of for-profit entities. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

10 An entity may receive a transfer of resources in the form of a lease asset through a lease contract on below-market terms and conditions. An entity shall assess the terms and conditions of each lease for evidence that the lessor intended to make a gift or contribution to the entity. Where it is apparent that the lessor intended to make a gift or contribution to the entity, an entity shall apply this Standard, rather than AASB 117 (or AASB 16, when applicable), to the initial recognition and measurement of inflows of resources (and related liabilities) arising from the lease contract. Examples of evidence that would normally indicate that the lessor intended to make a gift or contribution to the entity include:

(a) a lease for no or nominal consideration; and

(b) a lease on terms and conditions significantly lower or more favourable than market terms and conditions.

Recognition and measurement

Recognition and measurement of an asset (paragraphs B9 – B23)

Recognition

11 When an entity obtains control of a resource, except for resources in the form of volunteer services (see paragraphs 33-37), the resource shall be recognised as an asset if:

(a) it is probable that the future economic benefits associated with the asset will flow to the entity; and

(b) the fair value of the asset can be measured reliably.

Control of an asset

12 An entity controls an asset, representing a resource, when the entity can direct the use of, and obtain substantially all of the remaining benefits from, that asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. The benefits of an asset are represented by its service potential or potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly in many ways, such as by:

(a) using the asset to achieve the entity’s principal objectives;

(b) using the asset to produce goods or provide services (including public services);

(c) using the asset to enhance the value of other assets;

(d) using the asset to settle liabilities or reduce expenses;

(e) selling or exchanging the asset;

(f) pledging the asset to secure a loan; and

(g) holding the asset.

13 The ability to deny or regulate the access of others to the benefits of an asset is an essential element of control. This ability distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example financial institutions. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government that regulates those activities.

14 Transactions expected to occur in the future do not in themselves give rise to assets. For example, an intention to levy a tax does not give rise to an asset in the form of a present right against a taxpayer.

Probable inflow of future economic benefits

15 In relation to paragraph 11, an inflow of future economic benefits is probable when the inflow is more likely than not to occur. An entity bases this determination on its experience, if any, with similar types of inflows of assets and its expectations regarding the transferor (including a taxpayer). For example, where a government agrees to transfer funds to another government entity, and the agreement is enforceable, it is probable that the inflow will occur for the entity, notwithstanding that the funds have not been transferred at the reporting date. It would be more evident that it is probable that the inflow will occur if the government has a history of transferring agreed assets. However, this is not a pre-requisite for a probable inflow.

Inventories

16 In respect of an inflow of resources in the form of inventory acquired for no cost, as a practical expedient, an entity may assess the materiality of each inflow for recognition on the basis of an individual item without reassessment at an aggregate or portfolio level.

Measurement

17 An asset recognised in accordance with paragraph 11 shall initially be measured as follows:

(a) if the asset is within the scope of AASB 9 *Financial Instruments* or AASB 141 *Agriculture* – in accordance with the requirements of those Standards; and

(b) if the asset is not within the scope of AASB 9 or AASB 141 – at fair value as at the date of transfer. The asset's fair value shall be determined in accordance with AASB 13 *Fair Value Measurement*.

18 Notwithstanding paragraph 17, a non-contractual receivable arising from a statutory requirement (eg income tax receivable from taxpayers) shall initially be measured as though that receivable was within the scope of AASB 9.

19 Transaction costs shall be accounted for in accordance with other Australian Accounting Standards. Where specified, transaction costs shall be included as part of the initial carrying amount of the asset.

20 An asset may be purchased in an arm's length transaction, transferred for no or nominal cost to an entity, or may be acquired compulsorily by an entity through the exercise of its powers of sequestration or other powers to tax. This Standard requires an entity to use the same measurement basis to initially measure an asset acquired, regardless of the manner in which it has been acquired.

21 The consideration paid or payable for an asset normally represents its fair value, unless facts and circumstances indicate the vendor or lessor intended to make a donation when selling an asset or entering into a lease. Consequently, an entity would be required to measure the fair value of an asset on initial recognition only when there are indications that the consideration paid or payable was intentionally less than fair value. Examples of where a vendor or lessor intended to make a donation include:

(a) an entity purchases land from a local government at a reduced price because of the entity's benevolent objectives, and this concession is identified in correspondence or in the minutes of a meeting of the local government's council; and

(b) an asset is purchased or leased by an entity either without that entity paying consideration in return or where the fair value of that asset significantly exceeds the consideration paid or payable in return.

22 Acquisitions of assets from vendors or lessors on normal arm's-length terms and conditions, including those where vendors make distress sales or provide trade discounts, do not include a donation.

23 An asset recognised in accordance with paragraph 11 shall subsequently be measured in accordance with the measurement requirements of another Australian Accounting Standard (eg AASB 116 *Property, Plant and Equipment*) applicable to that asset.

Recognition and measurement of income and related amounts (paragraphs B24 – B28)

24 Except as set out in paragraphs 29-32, 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 25.

25 On initial recognition of an asset in accordance with paragraph 11, an entity shall recognise any related contributions by owners, increases in liabilities or decreases in assets, and revenue ('related amounts') in accordance with other Australian Accounting Standards. For example, related amounts may take the form of:

(a) contributions by owners, in accordance with AASB 1004;

(b) revenue or a contract liability arising from a contract with a customer, in accordance with AASB 15;

(c) a lease liability arising in a lease contract, in accordance with AASB 117 (or AASB 16, when applicable);

(d) a financial instrument, in accordance with AASB 9; or

(e) a provision, in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

26 Appendix F *Australian Implementation Guidance for Not-for-Profit Entities* in AASB 15 provides guidance on the identification of a contract with a customer in a not-for-profit entity context. The Appendix also clarifies the measurement of revenue and contract liabilities where the transaction price includes an amount that would otherwise be separately recognised and accounted for as income immediately in accordance with this Standard.

27 For the purposes of this Standard, income is determined as the amount of the residual inflow of resources after recognising any related amounts in accordance with another Australian Accounting Standard. An entity applies judgement in determining the extent to which an inflow of resources is income as specified by this Standard, or is revenue, a liability or a contribution by owners recognised in accordance with another Australian Accounting Standard.

28 In some instances, an entity may acquire an inflow of resources and also incur related amounts in excess of the inflow received. In such instances, the entity shall reassess whether it has correctly identified and measured all the related amounts, and shall recognise any additional related amounts arising from that review. If an excess remains after this review, the entity shall recognise an expense for the excess of the related amounts incurred over the carrying amount of the asset acquired. An entity does not adjust the excess to nil (proportionately or otherwise) against the initial measurement of the recognised related amounts.

Transfers made to enable an entity to acquire or construct a non-financial asset

29 Where an entity recognises a financial asset in a transfer that:

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

(b) does not require the entity to transfer a financial asset, good or service to the transferor; and

(c) obliges the entity to refund amounts received to the transferor if the financial asset is not applied in accordance with the terms of the transfer;

the entity shall measure the excess of the initial carrying amount of the financial asset over the related amounts recognised in accordance with paragraph 25. The entity shall recognise a liability for that excess, and income in profit or loss when (or as) the entity satisfies its obligations under the transfer.

30 In such instances, in substance, the transferor has made a transfer of a non-financial asset to the entity. However, the entity does not control the non-financial asset until the entity satisfies conditions attached to the transfer and is released from its obligation to refund a financial asset to the transferor. This Standard

requires the entity to initially recognise a liability representing the entity's obligation to refund a financial asset received, measured at the amount of the financial asset received from the transferor. The liability is recognised until such time when (or as) the entity satisfies its obligations under the transfer.

31 On initial recognition of the financial asset, an entity shall identify each condition of the transfer that must be met before control of the non-financial asset passes to the entity. For each condition, the entity shall determine whether the obligation is satisfied over time or at a point in time. If an entity does not satisfy an obligation over time, the obligation is satisfied at a point in time.

32 An entity shall apply a single method of measuring progress for each obligation satisfied over time and the entity shall apply that method consistently to similar obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a performance obligation satisfied over time.

Volunteer services

33 Local governments, government departments, general government sectors (GGSs) and whole of governments shall recognise an inflow of resources in the form of volunteer services as an asset (or expense, when the definition of an asset is not met) if:

(a) the fair value of those services can be measured reliably; and

(b) the services would have been purchased if they had not been donated.

34 An entity referred to in paragraph 33 may elect to recognise volunteer services if the services would not have been purchased if they had not been donated, provided that the fair value of those volunteer services can be measured reliably. Any other not-for-profit entity may elect to recognise volunteer services, or a class of volunteer services if the fair value of those services can be measured reliably.

35 Some volunteer services, such as professional services, might have readily observable market prices – in such circumstances, obtaining a reliable measure of fair value would be possible. An entity is not required to perform an exhaustive search for volunteer services that might meet the recognition criteria in this Standard. Volunteer services that would have been purchased if they were not donated should be readily identifiable from the entity's operational requirements.

36 Recognised volunteer services are measured at their fair value.

37 On the initial recognition of volunteer services, an entity shall recognise any related amounts in accordance with other Australian Accounting Standards. An entity shall recognise the excess of the fair value of the volunteer services over the related amounts as income immediately in profit or loss.

Disclosure

Note to Board members: The draft disclosures included herein reflect the proposals exposed in ED 260, and the staff view set out in Agenda Papers 3.4 and 3.5 relating to disclosure of unrecognised inventories, and volunteer services. Agenda Paper 3.6.2 (forthcoming) addresses whether further disclosures should be included (or exposed disclosures deleted), having regard to constituent feedback and the Board's decisions to date in its redeliberations.

38 The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the effects of inflows of resources on the financial position, financial performance and cash flows of the entity. Paragraphs 39-49 specify requirements on how to meet this objective.

39 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

40 An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

41 An entity shall disclose income recognised during the period, disaggregated into categories that reflect how the nature and amount of income (and the resultant cash flows) are affected by economic factors. An entity considers disclosing separately the following categories of income:

(a) inflows such as taxes, rates and *fines*;

(b) inflows such as:

(i) grants, bequests and donations of cash, other financial assets and goods;

(ii) recognised volunteer services; and

(iii) for government departments and agencies, amounts drawn down under appropriations that are recognised as income, by class of appropriation.

42 To meet the objective in paragraph 38, an entity shall consider disclosing information about assets and liabilities recognised at the reporting date in accordance with this Standard, including the amounts of:

(a) receivables that are not a financial asset as defined in AASB 132 *Financial Instruments: Presentation* (eg income tax receivable from a taxpayer), and:

(i) interest income recognised in relation to such receivables during the period; and

(ii) impairment losses recognised in relation to such receivables during the period;

(b) liabilities related to a transfer requiring the acquisition or construction of a non-financial asset (see paragraph 29); and

(c) financial liabilities relating to taxes or rates for which the taxable event has yet to occur, and the future period(s) to which those liabilities relate.

43 An entity is encouraged to disclose information about:

(a) the nature, type and scale of major classes of volunteer services it receives, including those not recognised;

(b) the nature, and an indication of the extent, of inventories held but not recognised at reporting date.

Such disclosures may assist users to make informed judgements about the contribution made by such transfers to the achievement of the entity's objectives during the reporting period, and the entity's dependence on such transfers for the achievement of its objectives in the future.

44 Other information that may be appropriate for an entity to disclose includes, for each class of taxation income that the entity cannot measure reliably during the period in which the taxable event occurs (see paragraphs B12–B16):

(a) information about the nature of the tax;

(b) the reason(s) why that income cannot be measured reliably; and

(c) when that uncertainty might be resolved.

Compliance with parliamentary appropriations and other related authorities for expenditure

45 Paragraphs 46–49 apply only to government departments and other public sector entities that obtain part or all of their spending authority for the period from a parliamentary appropriation. The amounts disclosed in accordance with paragraphs 46–49 include any amounts appropriated in respect of which the entity recognises revenue or other income in accordance with another Australian Accounting Standard.

46 An entity shall disclose:

(a) a summary of the recurrent, capital or other major categories of amounts authorised for expenditure (including parliamentary appropriations), disclosing separately:

(i) the original amounts appropriated; and

(ii) the total of any supplementary amounts appropriated and amounts authorised other than by way of appropriation (eg by the Treasurer, other Minister or other legislative authority);

(b) the expenditures in respect of each of the items disclosed in (a) above; and

(c) the reasons for any material variances between the amounts appropriated or otherwise authorised and the associated expenditures, and any financial consequences for the entity of unauthorised expenditure.

47 The information disclosed about compliance with limits on expenditures created by appropriations and any other authorities for expenditure during the period shall be in a form that is relevant to users of that information, and that reflects the following:

(a) the operating characteristics of the government department or other public sector entity;

(b) the structure of the appropriations; and

(c) the general purpose nature of the financial statements.

48 For the purposes of resource allocation decisions, including assessments of accountability, this Standard requires that users of financial statements of government departments and other public sector entities that obtain part or all of their spending authority for the period from a parliamentary appropriation be provided with information about the amounts appropriated or otherwise authorised for the entity's use, and whether the entity's expenditures were as authorised. When spending limits imposed by parliamentary appropriation or other authorisation have not been complied with, information regarding the amount of, and reasons for, the non-compliance is relevant for assessing the performance of management, the likely consequences of non-compliance, and the ability of the entity to continue to provide services at a similar or different level in the future.

49 Broad summaries of the major categories of appropriations and associated expenditures, rather than detailed reporting of appropriations for each activity or output, is sufficient for most users of such an entity's financial statements. Determining the level of detail and the structure of the summarised information is a matter of judgement.

Commencement of the legislative instrument

50 For legal purposes, this legislative instrument commences on 31 December 2017.

Appendix A
Defined terms

This appendix is an integral part of the Standard.

contributions by owners	Future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the entity which: (a) conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) can be sold, transferred or redeemed.
fines	Economic benefits received or receivable by an entity, as determined by a court or other law enforcement body, as a consequence of a breach of a law or regulation. Fines exclude penalties imposed by tax authorities.
payable tax credits	Tax credits that are not limited to the amount of a taxpayer's tax liability for the period, because they are available to beneficiaries regardless of whether they pay taxes.
tax relief	Preferential provisions of the tax law that provide particular taxpayers with concessions that are not available to others. Tax relief excludes **payable tax credits**.
taxable event	The event that the government, legislature or other authority has determined will be subject to taxation.
taxes	Economic benefits compulsorily paid or payable to public sector entities in accordance with laws and/or regulations established to provide income to the government. Taxes exclude **fines** or other penalties imposed for breaches of the law, except for penalties imposed by tax authorities.

Appendix B
Application guidance

This appendix is an integral part of the [draft] Standard. It describes the application of paragraphs 1–50.

Application of this Standard

B1 The following flowchart summarises the main requirements of this Standard to assist in its application.

FLOWCHART TO BE INSERTED TO VISUALLY DEPICT PARAS 11–37

Scope (paragraphs 7 – 10)

B2 This Standard specifies the accounting for inflows of resources that result in the initial recognition of an asset, other than certain inflows specifically excluded by paragraph 7. Inflows of resources received within scope of this Standard may arise from voluntary or compulsory transfers such as:

(a) grants, bequests or donations (including volunteer services);

(b) appropriations to government departments and agencies;

(c) taxes, rates or fines;

(d) consideration in a contract with a customer; or

(e) purchases of assets.

B3 Grants, bequests, donations and appropriations are forms of transfers made voluntarily. These transfers may or may not be made with stipulation or conditions on their use. Donations are transfers of assets that one entity makes to another entity and may be made without any attached conditions. Donations could be in the form of cash or another financial asset, donated goods, or volunteer services. Donations need not be made as part of a separate transaction; for example, a donation by a customer may be present in a contract in which a customer promises consideration in exchange for goods or services (eg a fundraising dinner).

B4 Volunteer services are services transferred by individuals or other entities without charge or for consideration intentionally less than the fair value of those services. Whether such services (when recognised in accordance with paragraph 33) are recognised as an asset or expense depends on the entity's determination whether it is probable that economic benefits will flow to the entity beyond the current accounting period. In many instances, the economic benefits of volunteer services will be consumed as the services are acquired.

B5 Entities may be recipients of volunteer services under voluntary or compulsory schemes operated in the public interest, for example:

(a) technical assistance from other governments or international organisations;

(b) persons convicted of offences may be required to perform community service for the entity;

(c) hospitals may receive the services of volunteers;

(d) schools may receive voluntary services from parents as teachers' aides or as board members; and

(e) local governments may receive the services of volunteer fire fighters.

B6 Entities may also be recipients of volunteer professional services that support their broader activities. For example, charities and religious organisations may receive free professional accounting or legal services.

B7 Government appropriations, which establish the authority to spend money for particular purposes, are a form of a transfer made voluntarily as the government is not compelled to make particular payments of amounts appropriated.

B8 Taxes, rates and fines are forms of transfers made compulsorily.

Recognition and measurement of an asset (paragraphs 11 – 23)

B9 An entity controls an asset when the entity can direct the use of, and obtain substantially all of the remaining benefits from, that asset.

B10 In many cases, an entity obtains control of a donation or other voluntary transfer when it receives the good or service. However, an entity may control a transfer made voluntarily prior to receipt of the good or service if the promise of the transfer is legally enforceable. An example of where a promised transfer may be legally enforceable prior to receipt of the good or service is a multi-year public policy agreement between a government and another level of government (or a government department) in which:

(a) the transferor promises to make the transfer (for example, a promised transfer of assets to the entity may be legally enforceable because the entity is entitled to rely on the promise and would suffer loss if the promise were not honoured); or

(b) the entity satisfies eligibility criteria for the transfer (such as expending funds or incurring liabilities, in relation to reimbursement transfers).

An entity reviews multi-year agreements at each reporting date to assess whether it has obtained control of part or all of the promised assets remaining at the beginning of the period. In some multi-year agreements, an entity may obtain control of the entire amount of promised assets upon entering into the agreement. In other multi-year agreements, an entity may obtain control of a portion of the promised assets in each year of the agreement.

B11 The circumstances that give rise to control of parliamentary appropriations can vary between jurisdictions in Australia, and may vary for different types of appropriations within a particular jurisdiction. An entity shall consider when it obtains control of each appropriation it receives.

Non-contractual receivables arising from statutory requirements

B12 The point of time at which an entity obtains an enforceable claim, and control of the future economic benefits, to compulsory transfers such as taxes and fines differs. An entity may only gain control of the future economic benefits from proceeds of fines when agreement is reached with the transferor (which may be when the fine is paid). This is because an individual will normally have the choice of paying the fine, or going to court to defend the matter. However, an entity obtains an enforceable claim, and control of the future economic benefits, for taxes when the taxable event giving rise to the taxing entity's right to receive the tax (the relevant underlying event) has occurred.

B13 The taxable event for each tax levied is specified in the relevant taxation law. Examples of taxable events include:

(a) income tax – the end of the taxation period in respect of which taxable income of a taxpayer is determined;

(b) goods and services tax – the purchase or sale of taxable goods and services during the taxation period;

(c) customs duty – the movement of dutiable goods or services across the customs boundary; and

(d) property tax – the passing of the date on which the tax is levied, or, if the tax is levied on a periodic basis, the period for which the tax is levied.

B14 In some instances, assets arising from taxable events cannot be measured reliably until after the taxing entity's financial statements are authorised for issue. This may occur, for example, if a tax base is volatile and reliable estimation is not possible. Consequently, in those cases, the assets would be recognised in a period subsequent to the occurrence of the taxable event, which in some cases might be several reporting periods after the taxable event.

B15 An entity initially measures tax receivables and other non-contractual receivables as if the measurement principles of AASB 9 *Financial Instruments* applied to those non-contractual receivables (ie as if tax receivables were financial assets). Therefore, tax receivables are measured on initial recognition at fair value plus, in the case of receivables not at fair value through profit or loss, any transaction costs directly attributable to their acquisition.

B16 It is unlikely that taxes or fines will qualify as assets of the government agency or department responsible for their collection. This is because the government agency or department responsible for collecting taxes or fines does not normally control the future economic benefits embodied in tax collections.

Bequests

B17 A bequest is a transfer made according to the provisions of a deceased person's Last Will and Testament (Will). Bequeathed items are recognised as assets when:

(a) the entity has obtained a present legal right to, and controls, the bequeathed items;

(b) it is probable that the future economic benefits will flow to the entity; and

(c) the fair value of the assets can be measured reliably.

B18 Assessing the probability of an inflow of future economic benefits may be problematic if a period of time elapses between the entity obtaining a present legal right to the bequeathed items and receiving any assets. The entity shall consider whether the deceased person's estate is sufficient to satisfy the bequest. Whether the initial recognition of bequeathed items as assets simultaneously gives rise to the recognition of income will depend on whether the entity incurs a liability as a result of the bequest. For example, the terms of a bequest may establish a contract between an entity and the estate that is within the scope of AASB 15 and which gives rise to a contract liability.

Endowments

B19 An endowment is a donation to an entity for the ongoing support of the entity's objectives, and may (but not necessarily) be made as part of a bequest. An endowment may be made for the perpetual benefit of the entity in that the transfer is made with a stipulation for the principal to be preserved, and only income earned on investment activity is available for use in the entity's operations.

B20 An entity shall assess whether it has control of assets transferred by way of an endowment to the entity; and if so, whether the inflow of resources it controls is the principal or a right to income earnt on that principal (eg interest, rental income, dividends). An entity controls the principal where it has the ability to direct the use of and obtain substantially all the benefits of holding that principal. A requirement to preserve the value of the principal is not of itself sufficient to indicate that an entity does not have control.

B21 An entity receiving an endowment in the capacity of a trustee applies AASB 10 *Consolidated Financial Statements* in determining whether it has control over the trust before it determines whether it controls any asset in accordance with this Standard.

B22 An entity measures the assets controlled consistent with the nature of the assets. As required by paragraph 17, an entity that controls an endowment in the form of cash, shares or another financial asset initially measures the asset in accordance with AASB 9, while an entity controlling an endowment in the form of a non-financial asset measures the asset at fair value. Where an endowment is perpetual (as described in paragraph B19) and the entity determines it controls the right to income earnt on the principal rather than the principal itself, the fair value of that right on initial recognition is typically equal to the fair value of the principal.

B23 An endowment may include conditions pertaining to investment of the principal and the purpose to which investment income must be applied. For example, an endowment made to a university may be made on condition that the principal is invested and the investment income used to fund an annual scholarship. An entity shall consider whether the conditions of the transfer give rise to any related contribution by owners, liabilities or revenue that is recognised at the same time as the entity recognises an asset controlled. For example, an entity may determine the stipulations give rise to a contract liability within the scope of AASB 15 for unperformed performance obligations under the terms of the endowment.

Recognition and measurement of income and related amounts (paragraphs 24 – 28)

B24 An entity recognises related contributions by owners, liabilities and revenue ('related amounts') on initial recognition of an inflow of resources as an asset. *[Staff intend to extend the drafting, including to address discussion of appropriations as income, constructive and other obligations, to clarify income is a residual, and provide examples of related amounts]*

Taxation income

B25 Taxes do not give rise to a contract liability or revenue recognised in accordance with AASB 15, even when they are raised in respect of specific goods or services. This is because the taxing entity does not promise to provide goods or services in an agreement that creates obligations enforceable against the taxing entity by legal or equivalent means.

B26 Taxes are not contributions by owners acting in their capacity as owners.

Payable tax credits and other tax relief

B27 Amounts of tax relief that enter directly into the calculation of a taxpayer's tax liability (including tax allowances, exemptions and deductions, and 'non-payable tax credits') are treated as reductions in income (ie foregone income), rather than expenses. A 'non-payable tax credit' is a tax credit limited to the amount of the taxpayer's tax liability for the period. An example of tax relief that enters directly into the calculation of a taxpayer's tax liability is where taxpayers are permitted tax deductions for self-education expenses. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession.

B28 In contrast, a 'payable tax credit' is a tax credit that is not limited to the amount of the taxpayer's tax liability for the period; that is, any excess of the tax credit over the tax liability for the period would be payable to the taxpayer. Such tax credits might be payable to taxpayers as part of a programme in which the same amount of benefit is paid to taxpayers and non-taxpayers alike (the latter being payable exclusively in the form of a cash benefit). For example, a government may use the tax system as a convenient method of paying benefits to taxpayers, which would otherwise be paid using another payment method, such as writing a cheque, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of an individual's health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability (by providing payable tax credits), making a payment by cheque or by paying an amount directly to the insurer. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently, this amount is an expense of the government and is recognised separately from its tax income. Tax income is measured gross of any expenses incurred by granting payable tax credits.

Appendix C
Effective date and transition

This appendix is an integral part of the Standard.

Effective date

The effective date included in this draft document reflects the preliminary staff view. The effective date will be reconsidered by the Board.

C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted for entities that apply AASB 15 *Revenue from Contracts with Customers* at or before the date of initial application of this Standard. If an entity applies this Standard earlier, it shall disclose that fact.

Transition

C2 For the purposes of the transition requirements in paragraphs C3–C11:

(a) the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard; and

(b) a completed contract is a contract or transaction for which the entity has recognised all of the income in accordance with AASB 1004 *Contributions*.

C3 An entity shall apply this Standard either:

(a) retrospectively to each prior reporting period presented in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application in accordance with paragraphs C6–C10.

C4 Notwithstanding the requirements of paragraph 28 of AASB 108, when this Standard is first applied, an entity need only present the quantitative information required by paragraph 28(f) of AASB 108 for the annual reporting period immediately preceding the first annual reporting period for which this Standard is applied (the 'immediately preceding period') and only if the entity applies this Standard retrospectively in accordance with paragraph C3(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

C5 When applying this Standard retrospectively in accordance with paragraph C3(a), as a practical expedient an entity need not restate completed contracts that:

(a) begin and end within the same annual reporting period; or

(b) are completed contracts at the beginning of the earliest period presented.

If an entity applies this expedient, it shall do so consistently to all completed contracts within all reporting periods presented and shall disclose the use of this expedient.

C6 If an entity elects to apply this Standard retrospectively in accordance with paragraph C3(b), the entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application. Under this transition method, an entity may elect to apply this Standard retrospectively only to contracts and transactions that are not completed contracts at the date of initial application.

C7 For the reporting period that includes the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied retrospectively in accordance with paragraph C3(b):

(a) the amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to AASB 1004 *Contributions* before the change; and

(b) an explanation of the reasons for significant changes identified in paragraph C7(a).

Leases

Leases with below-market terms and conditions classified as operating leases

C8 Notwithstanding the requirements in paragraph C3, for leases with below-market terms and conditions classified as operating leases in accordance with AASB 117 *Leases*, an entity shall not apply the requirements of this Standard to recognise any asset or income. Instead, the entity shall continue to apply its accounting policy under AASB 117 to those operating leases. On transition to AASB 16 *Leases*, the entity shall apply the transition requirements of that Standard to leases classified as operating leases in accordance with AASB 117.

Leases with below-market terms and conditions classified as finance leases

C9 For leases with below-market terms and conditions classified as finance leases in accordance with AASB 117, if an entity elects to apply this Standard in accordance with:

(a) paragraph C3(a) – the entity shall:

 (i) measure the leased asset at fair value;

 (ii) measure the lease liability in accordance with AASB 117; and

 (iii) recognise any related items in accordance with paragraph 26 of AASB 10XX *Income of Not-for-Profit Entities*. Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the earliest period presented; or

(b) paragraph C3(b) – the entity shall:

 (i) measure the leased asset at fair value as at the date of initial application of this Standard;

 (ii) measure the lease liability in accordance with AASB 117; and

 (iii) recognise any related items in accordance with paragraph 26 of AASB 10XX. Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application of this Standard.

C10 An entity may, as a practical expedient, apply paragraph C9 to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of this approach would not differ materially from applying paragraph C9 to the individual leases within that portfolio. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

References to AASB 9

C11 If an entity applies this Standard but does not yet apply AASB 9 *Financial Instruments*, any reference in this Standard to AASB 9 shall be read as a reference to AASB 139 *Financial Instruments: Recognition and Measurement*.

Appendix D
Amendments to other Standards

This appendix sets out the amendments to other Australian Accounting Standards that are a consequence of the AASB issuing this Standard.

The amendments set out in this appendix apply to entities and financial statements in accordance with the application of the Standards and Interpretations set out in AASB 1057 *Application of Australian Accounting Standards* (as amended).

The amendments apply to annual reporting periods beginning on or after 1 January 2018, except that the amendments to AASB 1 and AASB 16 apply to periods beginning on or after 1 January 2019. If an entity applies this Standard to an earlier period, it shall also apply these amendments to that earlier period. However, the AASB 1 and AASB 16 amendments are applied to an earlier period only if AASB 16 is also applied to that period.

Amendments are made to the latest principal version of a Standard (or an Interpretation), unless otherwise indicated. The amendments also apply, as far as possible, to earlier principal versions of the amended Standards and Interpretations when this Standard is applied for earlier periods, as necessary.

This appendix uses underlining, striking out and other typographical material to identify some of the amendments to a Standard or an Interpretation, in order to make the amendments more understandable. However, the amendments made by this appendix do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (…) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

AASB 1 *First-time Adoption of Australian Accounting Standards*

The amendments to AASB 1 apply to periods beginning on or after 1 January 2019.

Paragraphs from AASB 1 are presented as amended by AASB 16 *Leases* (Appendix D). Not-for-profit entities shall apply the following amendments if the current period presented in the entity's first Australian-Accounting-Standards financial statements begins on or after 1 January 2019. If a not-for-profit entity applies AASB 16 to an earlier period on adoption of Australian Accounting Standards, the entity shall also apply the following amendments for that earlier period.

In Appendix D, paragraphs AusD7.1, AusD9D.1 and AusD9D.2 are added. Paragraphs D5–D7, D9, D9B, D9C and D9D have not been amended, but are included for ease of reference.

Deemed cost

D5 An entity may elect to measure an item of property, plant and equipment at the date of transition to Australian Accounting Standards at its fair value and use that fair value as its deemed cost at that date.

D6 A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to Australian Accounting Standards as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) fair value; or

(b) cost or depreciated cost in accordance with Australian Accounting Standards, adjusted to reflect, for example, changes in a general or specific price index.

D7 The elections in paragraphs D5 and D6 are also available for:

(a) …

(aa) right-of-use assets (AASB 16 *Leases*); and

(b) …

<u>AusD7.1</u> <u>Notwithstanding paragraphs D5–D7, where a lessee is a not-for-profit entity and the lease has below-market terms and conditions, the entity shall measure the right-of-use asset at fair value as at the beginning of the current period presented in the entity's first Australian-Accounting-Standards financial statements or at the previous GAAP valuation if that valuation broadly reflects that fair value.</u>

…

Leases

D9 A first-time adopter may assess whether a contract existing at the date of transition to Australian Accounting Standards contains a lease by applying paragraphs 9–11 of AASB 16 to those contracts on the basis of facts and circumstances existing at that date.

D9B When a first-time adopter that is a lessee recognises lease liabilities and right-of-use assets, it may apply the following approach to all of its leases (subject to the practical expedients described in paragraph D9D):

(a) measure a lease liability at the date of transition to Australian Accounting Standards. A lessee following this approach shall measure that liability at the present value of the remaining lease payments (see paragraph D9E), discounted using the lessee's incremental borrowing rate (see paragraph D9E) at the date of transition to Australian Accounting Standards.

(b) measure a right-of-use asset at the date of transition to Australian Accounting Standards. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:

(i) its carrying amount as if AASB 16 had been applied since the commencement date of the lease (see paragraph D9E), but discounted using the lessee's incremental borrowing rate at the date of transition to Australian Accounting Standards; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of transition to Australian Accounting Standards.

(c) apply AASB 136 to right-of-use assets at the date of transition to Australian Accounting Standards.

D9C Notwithstanding the requirements in paragraph D9B, a first-time adopter that is a lessee shall measure the right-of-use asset at fair value at the date of transition to Australian Accounting Standards for leases that meet the definition of investment property in AASB 140 and are measured using the fair value model in AASB 140 from the date of transition to Australian Accounting Standards.

D9D A first-time adopter that is a lessee may do one or more of the following at the date of transition to Australian Accounting Standards, applied on a lease-by-lease basis:

(a) …

<u>AusD9D.1</u> <u>Notwithstanding paragraphs D9B–D9D, where a lessee is a not-for-profit entity and the lease has below-market terms and conditions, all references in those paragraphs to the date of transition to Australian Accounting Standards shall be read as referring to the beginning of the current period presented in the entity's first Australian-Accounting-Standards financial statements. Consequently, the entity shall measure the lease liability and the right-of-use asset as at that date. The right-of-use asset shall be measured in accordance with paragraph AusD7.1.</u>

<u>AusD9D.2</u> <u>Where a lessee is a not-for-profit entity and the lease has below-market terms and conditions, the entity shall also recognise any related items in accordance with paragraph 26 of AASB 10XX *Income of Not-for-Profit Entities*. Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at the beginning of the current period presented in the entity's first Australian-Accounting-Standards financial statements.</u>

AASB 15 *Revenue from Contracts with Customers*

In Appendix C, paragraph AusC2.1 is added.

AusC2.1 In respect of not-for-profit entities, the reference in paragraph C2(b) to a completed contract also includes contracts for which the entity has recognised all of the revenue in accordance with AASB 1004 *Contributions*, or revenue in combination with a provision in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

AASB 16 *Leases*

The amendments to AASB 16 apply to periods beginning on or after 1 January 2019.

Paragraph Aus25.1 and, in Appendix C, paragraphs AusC5.1 and AusC8.1 are added.

Aus25.1 Notwithstanding paragraphs 23–25, where the lessee is a not-for-profit entity and the lease has below-market terms and conditions, the right-of-use asset shall initially be measured at fair value in accordance with AASB 10XX *Income of Not-for-Profit Entities*. AASB 10XX does not modify the measurement requirements for lease liabilities in this Standard.

AusC5.1 In respect of not-for-profit entities applying this Standard retrospectively in accordance with paragraph C5(a) to leases with below-market terms and conditions, a not-for-profit entity shall:

(a) measure the right-of-use asset at fair value;

(b) measure the lease liability in accordance with this Standard; and

(c) recognise any related items in accordance with paragraph 26 of AASB 10XX *Income of Not-for-Profit Entities*. Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) as at the beginning of the earliest prior period presented.

AusC8.1 In respect of not-for-profit entities applying this Standard retrospectively in accordance with paragraph C5(b) to leases with below-market terms and conditions that were previously classified as an operating lease applying AASB 117, a not-for-profit entity shall:

(a) notwithstanding paragraph C8(b), measure the right-of-use asset at fair value as at the date of initial application of this Standard;

(b) measure the lease liability in accordance with paragraph C8(a); and

(c) recognise any related items in accordance with paragraph 26 of AASB 10XX. Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application of this Standard.

AASB 101 *Presentation of Financial Statements*

Paragraph Aus16.2 is deleted.

Aus16.2 [Deleted by the AASB]

AASB 102 *Inventories*

Paragraphs Aus9.1 and Aus10.1 are amended.

Aus9.1 Notwithstanding paragraph 9, ~~each~~ not-for-profit ~~entity~~ <u>entities</u> shall measure *inventories held for distribution* at <u>fair value in accordance with AASB 10XX *Income of Not-for-Profit Entities*</u> ~~cost~~, adjusted when applicable for any loss of service potential.

Aus10.1 Notwithstanding paragraph 10, ~~in respect of~~ not-for-profit entities <u>shall measure the cost of inventories at fair value in accordance with AASB 10XX</u>~~, where inventories are acquired at no cost, or for nominal consideration, the cost shall be the current replacement cost as at the date of acquisition~~.

AASB 112 *Income Taxes*

Paragraphs 4 and Aus33.1 are amended. Paragraph Aus4.1 is added.

4 This Standard does not deal with the methods of accounting for government grants (see AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* ~~or, for not-for-profit entities, AASB 1004 *Contributions*~~) or investment tax credits. However, this Standard does deal with the accounting for temporary differences that may arise from such grants or investment tax credits.

Aus4.1 In respect of not-for-profit entities, AASB 10XX *Income of Not-for-Profit Entities* and AASB 15 *Revenue from Contracts with Customers* address the accounting for government grants.

…

Aus33.1 In respect of not-for-profit entities, a deferred tax asset will not arise on a non-taxable government grant relating to an asset. <u>For example,</u> ~~Under AASB 1004 *Contributions*~~ <u>under AASB 10XX *Income of Not-for-Profit Entities*</u>, <u>where</u> a not-for-profit entity accounts for the receipt of non-taxable government grants as income rather than as deferred income ~~when those grants are controlled by the entity. As such~~, a temporary difference does not arise.

AASB 116 *Property, Plant and Equipment*

Paragraph Aus15.2 is deleted, and paragraphs Aus15.1 and Aus15.3 are amended.

Aus15.1 Notwithstanding paragraph 15, ~~in respect of~~ *not-for-profit entities*~~,~~ <u>shall measure the cost of an item of property, plant and equipment at fair value in accordance with AASB 10XX *Income of Not-for-Profit Entities*</u> ~~where an asset is acquired at no cost, or for a nominal cost, the cost is its *fair value* as at the date of acquisition~~.

Aus15.3 In respect of not-for-profit entities, for the purposes of this Standard, the initial recognition <u>and measurement</u> at fair value of an item of property, plant and equipment~~, acquired at no or nominal cost, consistent with the requirements of paragraph Aus15.1~~ <u>in accordance with AASB 10XX</u>~~,~~ does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 31, and the supporting commentary in paragraphs ~~32 to~~ <u>34 and</u> 35, only apply where an entity elects to revalue an item of property, plant and equipment ~~in subsequent reporting periods~~ <u>after its recognition</u>.

Paragraph Aus6.2 in Appendix A *Australian defined terms* is amended.

Aus6.2 Examples of property, plant and equipment held by not-for-profit public sector entities ~~and for-profit government departments~~ include, but are not limited to, infrastructure, cultural, community and heritage assets.

The scoping guidance to the Australian implementation guidance accompanying AASB 116 is amended.

Australian implementation guidance

This guidance accompanies, but is not part of, AASB 116. This guidance is pertinent to not-for-profit public sector entities ~~and for-profit government departments~~ that hold heritage or cultural assets.

AASB 117 *Leases*

Paragraph Aus20.1 is added.

Aus20.1 Notwithstanding paragraph 20, where the lessee is a not-for-profit entity and the finance lease has below-market terms and conditions, the leased asset shall initially be measured at fair value in

accordance with AASB 10XX *Income of Not-for-Profit Entities*. AASB 10XX does not modify the measurement requirements for lease liabilities in this Standard.

AASB 128 *Investments in Associates and Joint Ventures*

Paragraph Aus10.1 is added.

Aus10.1 Notwithstanding paragraph 10, not-for-profit entities shall measure the cost of an investment in an associate or joint venture at fair value in accordance with AASB 10XX *Income of Not-for-Profit Entities*.

AASB 138 *Intangible Assets*

Paragraph Aus24.1 is amended.

Aus24.1 Notwithstanding paragraph 24, ~~in respect of~~ not-for-profit entities~~, where an asset is acquired at no cost, or for a nominal cost,~~ shall measure the cost of the asset at ~~is its~~ *fair value* ~~as at the date of acquisition~~ in accordance with AASB 10XX *Income of Not-for-Profit Entities*.

The footnote to paragraph 44 is amended.

AASB 120 only applies to for-profit entities. Not-for-profit entities shall apply AASB 10XX *Income of Not-for-Profit Entities* to initially measure the intangible asset at fair value and recognise related amounts ~~are required to recognise the intangible asset and the grant initially at fair value in accordance with AASB 1004 *Contributions*~~.

AASB 140 *Investment Property*

Paragraph Aus20.1 is amended.

Aus20.1 Notwithstanding paragraph 20, ~~in respect of~~ not-for-profit entities~~,~~ shall measure the cost of the asset at fair value in accordance with AASB 10XX *Income of Not-for-Profit Entities* ~~where an investment property is acquired at no cost or for nominal cost, its cost shall be deemed to be its fair value as at the date of acquisition~~.

AASB 141 *Agriculture*

Paragraph Aus38.1 is amended.

Aus38.1 Notwithstanding paragraphs 34-38, not-for-profit entities ~~recognise~~ shall account for government grants related to a biological asset in accordance with ~~AASB 1004 *Contributions*~~ AASB 10XX *Income of Not-for-Profit Entities*.

AASB 1004 *Contributions*

Paragraphs 1–5 are deleted and paragraph 6 is replaced.

6 The following table identifies which paragraphs are applicable to each type of entity to which this Standard applies:

Type of entity to which the paragraph is applicable	Content of paragraphs	Para No.
Government departments	Parliamentary appropriations	32
	Liabilities of government departments assumed by other entities	39 – 43A
	Contributions by owners and distributions to owners	48 – 53
	Restructure of administrative arrangements	54 – 59
Other government controlled not-for-profit entities	Restructure of administrative arrangements	54 – 59
Local governments and whole of governments	Contributions by owners and distributions to owners	48 – 53

Paragraphs 6A and 43A are added. Paragraphs 11–31, 33–38, 44–47 and 60–68 and the related headings and scoping guidance are deleted. Paragraph 32 is amended and scoping guidance added. The scoping guidance before paragraph 39 is amended. Appendix B *Comparison of AASB 1004 with AAS 27, AAS 29 and AAS 31* accompanying AASB 1004 is deleted.

6A **This Standard does not apply to an inflow of a resource within the scope of AASB 10XX *Income of Not-for-Profit Entities.***

…

Parliamentary Appropriations to Government Departments

Paragraph 32 of this Standard applies only to government departments.

32 **Parliamentary appropriations over which a government department gains control during the reporting period shall be recognised as~~:~~**

~~(a)~~ ~~income of that reporting period where the appropriation:~~

~~(i)~~ ~~satisfies the definition of income in the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*); and~~

~~(ii)~~ ~~satisfies the recognition criteria for income;~~

~~(b)~~ a direct adjustment to equity where the appropriation satisfies the definition of a contribution by owners~~; or~~

~~(c)~~ ~~a liability of the government department where the appropriation:~~

~~(i)~~ ~~satisfies the definition of liabilities in the *Framework*; and~~

~~(ii)~~ ~~satisfies the recognition criteria for liabilities in the *Framework*.~~

…

Liabilities of Government Departments Assumed by Other Entities

Paragraphs 39 to ~~43~~ 43A of this Standard apply only to government departments.

…

43A **A government department shall disclose liabilities that were assumed during the reporting period by the government or other entity.**

Paragraphs 54–57 and the related scoping guidance are amended.

Restructure of Administrative Arrangements

Paragraphs 54 to 59 of this Standard apply only to <u>government departments and other</u> government controlled not-for-profit entities ~~and for-profit government departments~~.

54 In relation to a *restructure of administrative arrangements*, a government controlled not-for-profit transferor entity ~~or a for-profit government department transferor entity~~ shall recognise distributions to owners and a government controlled not-for-profit transferee entity ~~or a for-profit government department transferee entity~~ shall recognise contributions by owners in respect of assets transferred.

55 In relation to a restructure of administrative arrangements, a government controlled not-for-profit transferor entity ~~or a for-profit government department transferor entity~~ shall recognise contributions by owners and a government controlled not-for-profit transferee entity ~~or a for-profit government department transferee entity~~ shall recognise distributions to owners in respect of liabilities transferred.

56 When both assets and liabilities are transferred as a consequence of a restructure of administrative arrangements, a government controlled not-for-profit transferor entity ~~or a for-profit government department transferor entity~~ and a government controlled not-for-profit transferee entity ~~or a for-profit government department transferee entity~~ shall recognise a net contribution by owners or distribution to owners, as applicable.

57 When activities are transferred as a consequence of a restructure of administrative arrangements, a government controlled not-for-profit transferee entity ~~or a for-profit government department transferee entity~~ shall disclose the expenses and income attributable to the transferred activities for the reporting period, showing separately those expenses and items of income recognised by the transferor during the reporting period. If disclosure of this information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.

AASB 1049 *Whole of Government and General Government Sector Financial Reporting*

In the Illustrative Examples accompanying AASB 1049, the explanatory notes supporting illustrative examples A and B are amended.

Explanatory Notes Supporting Illustrative Examples A and B

…

q Liabilities – Provisions

…

q(ii) …

[Note: Depending on the arrangements operating in a particular jurisdiction, a GGS, as an income tax collector, may not be able to recognise revenue unless it meets the criteria in ~~AASB 1004 *Contributions*~~ <u>AASB 10XX *Income of Not-for-Profit Entities*</u>. …

AASB 1057 *Application of Australian Accounting Standards*

Paragraphs 6 and 11 are amended. Paragraph 20A is added.

6 AASB 8 *Operating Segments* applies to:

(a) each for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial statements of each other for-profit reporting entity ~~other than for-profit government departments~~; and

(c) financial statements of a for-profit entity ~~other than for-profit government departments~~ that are, or are held out to be, general purpose financial statements.

…

11 AASB 1004 *Contributions* applies to general purpose financial statements of local governments, government departments, other government controlled not-for-profit entities and whole of governments.~~:~~

~~(a) each not-for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;~~

~~(b) general purpose financial statements of each other not-for-profit entity that is a reporting entity;~~

~~(c) financial statements of not-for-profit entities that are, or are held out to be, general purpose financial statements; and~~

~~(d) financial statements of GGSs prepared in accordance with AASB 1049.~~

…

20A AASB 10XX *Income of Not-for-Profit Entities* applies to:

(a) each not-for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial statements of each other not-for-profit entity that is a reporting entity; and

(c) financial statements of not-for-profit entities that are, or are held out to be, general purpose financial statements.

Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*

Paragraphs 3, 6, 19, 20 and 30 are amended.

ISSUE

…

3 This Interpretation addresses the essential characteristics of contributions by owners and provides indicators of when those characteristics exist. With one significant exception, it applies to parliamentary appropriations and other transfers to statutory authorities, government departments and government-owned corporations from other entities within the same group of entities but only where the transferee is wholly owned by the controlling government. The exception is that this Interpretation does not apply in respect of "restructures of administrative arrangements", as defined in AASB 1004. In such cases the requirements in AASB 1004 apply, which means that government departments and other government controlled not-for-profit entities ~~and for-profit government departments~~ account for "restructures of administrative arrangements" as transactions with owners in their capacity as owners.

…

CONSENSUS

6 This Interpretation applies to transfers of assets, or assets and liabilities, to wholly-owned public sector entities from other entities within the same group of entities, other than:

(a) …

(b) transfers to or from government departments and other government controlled not-for-profit entities ~~or for-profit government departments~~ arising as a result of a "restructure of administrative arrangements", which is defined in AASB 1004 as:

…

Classification of Transfers as Contributions by Owners

19 However, AASB 1004 requirements relating to contributions by and distributions to owners, other than in relation to restructures of administrative arrangements by government departments and other government controlled not-for-profit entities ~~or for-profit government departments~~:

(a) …

20 This Interpretation adopts the views that the determinant of whether a transfer to a public sector entity should be classified as a contribution by owners is whether the transfer meets the definition of contributions by owners in paragraph 18, and that such classification does not depend:

(a) …

(b) on the composition and extent of the transfer, for example (other than for government departments and other government controlled not-for-profit entities ~~or for-profit government departments~~ involved in restructures of administrative arrangements) whether it involves a restructuring; or

(c) …

Financial Interest in the Net Assets of the Entity which can be Sold, Transferred or Redeemed

…

30 Because any transfer by a parent to its wholly-owned subsidiary (other than a transfer made as consideration for the provision by the transferee of assets or services at fair value to the transferor) has the potential to satisfy the definition of contributions by owners in paragraph 18, this Interpretation adopts the view that it is necessary to refer to the form of the transfer to determine whether it should be classified as a contribution by owners. Accordingly, if the transferee neither issues equity instruments nor is a party to an agreement setting out the respective ownership interests of equity contributors, in relation to the transfer, formal designation that the transfer is to be added to the transferee's contributed equity is necessary to identify contributions by owners (except in relation to government departments and other government controlled not-for-profit entities ~~or for-profit government departments~~ involved in restructures of administrative arrangements).

In the Appendix accompanying Interpretation 1038, paragraph A1 is amended.

A1 This appendix discusses five scenarios in a whole of government context to illustrate the classification of certain transfers within a group of entities in which the parent is either a government or a subsidiary of a government, in accordance with the Interpretation. It illustrates the position of interposed parents in a series of such transfers, and the application of paragraphs 10, 11 and 13 of the Interpretation to the classification of such transfers within the group. None of the transfers illustrated in this appendix is made as consideration for the provision by the transferee of assets or services at fair value to the transferor. In addition, none of the transfers involves the issuance or cancellation of equity instruments; and none of the transfers are in relation to a government department or other government controlled not-for-profit entity ~~or a for-profit government department~~ in respect of a "restructure of administrative arrangements" as defined in AASB 1004 *Contributions.*

Illustrative examples

These illustrative examples accompany, but are not part of, AASB 10XX. They illustrate aspects of AASB 10XX, but are not intended to provide interpretative guidance.

To be included in fatal flaw draft, which will be made available in September 2016.

The Illustrative Examples are subject to Board deliberations at the August 2016 meeting.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 10XX.

To be included in fatal flaw draft, which will be made available in September 2016.

The Basis for Conclusions is subject to Board deliberations at the August 2016 meeting.