



Project:	Income of Not-for-Profit Entities	Meeting	AASB June 2016 (M152)
Topic:	Project objective	Agenda Item:	3.1
Contact(s):	Mark Shying mshying@asab.gov.au (03) 9617 7645 Joanna Spencer jspencer@asab.gov.au (03) 9617 7620 Nikole Gyles ngyles@asab.gov.au (03) 9617 7639	Project Priority: High Decision-Making: High Project Status: Redeliberations	

Introduction and objective of this paper

- 1 The objective of this paper is to provide a considered review of the effect of Board redeliberations to date on the direction of the project, including a reassessment of the stated project objective and purpose.
- 2 This paper will also provide context for papers that requires Board decisions regarding the inclusion in a finalised Standard of material on accounting for perpetual endowments and capital grants, and transitional requirements.
- 3 This paper is structured as follows:
 - (a) Background (paragraph 4)
 - (b) Project objective (paragraphs 5-8)
 - (c) Staff recommendation (paragraph 9)

Background

- 4 In April 2015, the AASB issued ED 260 *Income of Not-for-Profit Entities*. The comment period for the ED closed in August 2015. The ED proposed:
 - (a) the replacement of the income recognition model in AASB 1004 *Contributions*;

- (b) a new [draft] Standard AASB 10XX *Income of Not-for-Profit Entities* to apply to not-for-profit entities, including Application Guidance and Illustrative Examples; and
- (c) Implementation Guidance and Illustrative Examples for AASB 15 *Revenue from Contracts with Customers* to apply to not-for-profit entities.

Project objective

- 5 The stated high-level project objective is to replace the income recognition model in AASB 1004. The replacement would remove the need to consider the reciprocal versus non-reciprocal division.
- 6 However, ED and subsequent redeliberations by the Board have a much broader context than simply replacing the income recognition model in AASB 1004.
- 7 For example, ED 260 proposed:
 - (a) a new Standard (AASB 10XX) and accompanying material to address accounting for a transferred resource.
 - (b) AASB 10XX serve as a basis for not-for-profit entity accounting by ‘signposting’ to requirements of other standards in specified situations. For example:
 - (i) the purpose of [draft] AASB 10XX paragraph 8 is one of funnelling.¹ As AASB 15 applies to contracts with customers the effect of this paragraph is to remind not-for-profit entities that some transfers of resources are a contract with a customer (e.g., a grant with return conditions and performance obligations) and therefore within the scope of AASB 15 and not [draft] AASB 10XX; and
 - (ii) [draft] AASB 10XX paragraph 13 requires that an asset recognised under [draft] AASB 10XX that is within the scope of AASB 9 *Financial Instruments* is measured on initial recognition, and subsequently, in accordance with the requirements of that Standard.
 - (c) proposed Implementation Guidance and Illustrative Examples to accompany AASB 15 to help not-for-profit entities apply the Standard. The guidance will help an entity determine whether it has a contract with a customer (which ‘ties in’ with the purpose of [draft] AASB 10XX paragraph 8).

¹ The [draft] Standard sets out the requirements for recognising income from transactions or events that are not within the scope of another Standard.

Staff recommendation

- 8 Staff have reflected on the stated project objective and consider that, as currently stated, the objective, and the proposed title of the Standard should be revised to reflect the broader scope of the project. Accordingly, staff recommend the following project objective and title.

Not-for-Profit Entity Transactions

The objective of this project is to develop a not-for-profit sector Accounting Standard that provides a basis for accounting for transactions and, where needed, develop not-for-profit sector specific guidance for accounting for transactions.

The AASB proposes that the not-for-profit sector Standard [draft] AASB 10XX *Not-for-Profit Entity Transactions* will, as the ‘starting point’ for entities in this sector:

- provide guidance as to when control of a resource is obtained;
- include ‘signposts’ to relevant existing Accounting Standards entities should apply; and
- replace the income recognition requirements of AASB 1004 *Contributions* with new income recognition principles for transactions that are not within the scope of existing Standards (e.g., AASB 15 *Revenue from Contracts with Customers*).

Guidance will also be developed to assist in the implementation of AASB 15.

- 9 The Project Advisory Panel expressed their support for the objective expressed in the box presented above. The Panel did not support the retitling of AASB 10XX as it was their view that the title “Not-for-Profit Entity Transactions” was too broad for a standard that would fundamentally not be vastly different from what was exposed as “Income of Not-for-Profit Entities”. Further, some Panel members also noted that the proposed Standard does not address all not-for-profit entity transactions (for example, it does not address liabilities and equity transactions).

Question for the Board

Do Board members agree with the staff recommendation to retitle AASB 10XX and re-express the project objective? If not, what approach would Board members like to pursue?