

AASB Standard

AASB 2016-X
Month 2016

Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Revenue from Contracts with Customers

[AASB 15]



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.

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ACCOUNTING STANDARD

**AASB 2016-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – AUSTRALIAN
IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES – REVENUE FROM CONTRACTS
WITH CUSTOMERS**

from paragraphs

[To be updated]

OBJECTIVE

APPLICATION

AMENDMENTS TO AASB 15

Australian Accounting Standard AASB 2016-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Revenue from Contracts with Customers* is set out in paragraphs 1 – 7. All the paragraphs have equal authority.

Preface

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

Accounting Standard AASB 2016-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2016-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Revenue from Contracts with Customers* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Kris Peach
Chair – AASB

Accounting Standard AASB 2016-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Revenue from Contracts with Customers*

Objective

- 1 This Standard amends AASB 15 *Revenue from Contracts with Customers* to add authoritative implementation guidance for application by not-for-profit entities.

Application

- 2 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 15 as set out in AASB 1057 *Application of Australian Accounting Standards* (as amended).
- 3 This Standard applies to annual periods beginning on or after 1 January 2018. This Standard may be applied to annual periods beginning before 1 January 2018, provided that AASB 10XX is also applied to the same period. When an entity applies this Standard to such an annual period, it shall disclose that fact.

Amendments to AASB 15

- 4 Paragraph Aus7.1 is added.
Aus7.1 For not-for-profit entities, a contract may also be partially within the scope of this Standard and partially within the scope of AASB 10XX *Income of Not-for-Profit Entities*.
- 5 Appendix F *Australian implementation guidance for not-for-profit entities* is added as set out on pages 6–9.
- 6 *Australian Illustrative Examples for Not for-Profit Entities* is attached (to accompany AASB 15) as set out on pages 10–14.

Commencement of the legislative instrument

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

APPENDIX F

Australian implementation guidance for not-for-profit entities

Note to Board members: This Appendix is work in progress. Staff are continuing to revise (and extend) the Appendix to reflect the Board's decisions to date and to demonstrate the interaction with AASB 2016-X.

This appendix is an integral part of AASB 15 and has the same authority as other parts of the Standard. The appendix applies only to not-for-profit entities.

Introduction

- F1 AASB 15 *Revenue from Contracts with Customers* incorporates International Financial Reporting Standard IFRS 15 *Revenue from Contracts with Customers*, issued by the International Accounting Standards Board. Consequently, the text of AASB 15 is generally expressed from the perspective of for-profit entities in the private sector. The AASB has prepared this appendix to explain and illustrate the principles in the Standard from the perspective of not-for-profit entities in the private and public sectors, particularly to address circumstances where a for-profit perspective does not readily translate to a not-for-profit perspective. The appendix does not apply to for-profit entities or affect their application of AASB 15.
- F2 This appendix provides guidance to assist not-for-profit 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 15, the recognition and measure of income arising on the transaction may instead be specified by another Standard, for example, AASB 10XX *Income of Not-for-Profit Entities*.
- F3 [Staff to add an introductory paragraph explaining the 5-step model, and what this Appendix addresses in each of those 5-steps]

Identifying whether a contract with a customer exists

[Staff to add an introductory paragraph, and may reorder this section of the document. Staff expect to extend the drafting here to better explain that NFP entities may have contracts with customers as ordinarily understood in a for-profit context, and contracts with customers that are unique to NFP entities. Staff also consider improving the relationship between this Appendix and AASB 10XX for consistency in language, eg. explaining customer as transferor]

Enforceable agreement

- F4 An inherent feature of a contract with a customer is that the entity makes promises in an agreement that creates enforceable rights and obligations. Paragraphs F5-F11 provide guidance for not-for-profit entities on when an agreement creates enforceable rights and obligations.
- F5 An agreement is enforceable when a separate party is able to enforce it through legal or equivalent means. It is not necessary for each promise in the agreement to transfer goods or services to be enforceable by legal or equivalent means, as long as some enforceable obligations of the entity arise from the agreement. For an agreement to be enforceable by a separate party through 'equivalent means' requires the presence of a mechanism outside the legal system that establishes the right of a separate party to oblige the entity to act in a particular way or be subject to consequence. An agreement is enforceable by another party through legal or equivalent means if, for example:
- (a) the customer, or another party acting on its behalf, has a right to enforce specific performance;
 - (b) an administrative process exists to enforce mutual agreements between sovereign States or between an asset provider and recipient of such States; or
 - (c) a mechanism exists to provide a party with legal authority to require the entity to either transfer the promised goods or services or compensate it for not transferring those goods or services.
- F6 In respect of not-for-profit entities, enforcement mechanisms may arise from administrative arrangements or statutory provisions. An example of such an enforcement mechanism is a directive given by a Minister or government department to a public sector entity controlled by the government to which the Minister or

government department belongs. The ministerial authority to require a transfer of goods or services would be sufficient for an agreement to be enforceable by a separate party through legal or equivalent means.

- F7 In relation to paragraph F5, a consequence for failing to transfer promised goods or services could be either a return of consideration or a penalty for non-performance that is sufficiently severe to compel the entity to fulfil its promise to transfer goods or services. In some circumstances, where rights to specific performance are unavailable or unnecessary, the authority to require compensation may be the key determinant of the enforceability of an agreement involving a promise to transfer goods or services. A capacity to impose a severe penalty for non-performance can exist without a capacity to require a return of transferred assets or assets of equivalent value.
- F8 Identification of an agreement as being enforceable by another party through legal or equivalent means does not require a history of enforcement of similar agreements by the customer or even an intention of the customer to enforce its rights. A customer might choose not to enforce its rights against an entity. However, that decision is at the customer's discretion, and does not affect the enforceability of the customer's contractual rights. Enforceability depends solely on the customer's capacity to enforce its rights.
- F9 In contrast to the factors in paragraph F5, the following circumstances would not, of themselves, cause an agreement involving a promise to transfer goods or services to be enforceable by another party through legal or equivalent means:
- (a) a transferor has the capacity to withhold future funding to which the entity is not presently entitled; and
 - (b) a not-for-profit entity makes a statement of intent to spend money or consume assets in particular ways. A statement of intent would, of itself, be insufficient to cause an agreement to be enforceable, even if that statement is the subject of budget-to-actual reporting and of other oversight mechanisms to discharge accountability for the raising and expenditure or consumption of assets.
- F10 In relation to paragraph F9, a transferor's capacity to withhold future funding to which the entity is not presently entitled can be distinguished from circumstances in which a transferor presently holds refund rights, or has the capacity to impose a severe penalty, in the event of the transferee's non-performance, but might choose to obtain such a refund or impose such a penalty by deducting the amount of the refund or penalty from a future transfer to the entity. For example, a transferor's capacity to withhold future funding to which the transferee is not presently entitled would differ from any circumstances in which a transferor could demand a refund of granted assets in the event of the transferee's non-performance, regardless of whether it makes any future transfers to the transferee, but chooses for convenience to 'net settle' by deducting the refund amount from a future transfer. In this latter case, the transferor could enforce against the entity a promise to provide goods or services.
- F11 Obligations can be legal, constructive, moral or economic in nature [Staff intend to extend the drafting to include further discussion about obligations, including when they may give rise to liabilities].

Contract

- F12 In relation to the definition of 'contract' in Appendix A, the reference to an 'agreement' in that definition shall be read by not-for-profit entities as encompassing an arrangement entered into under the direction of another party (for example, when assets are transferred to an entity with a directive that they be deployed to provide specified services).
- F13 Paragraph 10 states that contracts can be written, oral or implied by an entity's customary business practices. The customary business practices of a not-for-profit entity refer to that entity's customary practice in performing or conducting its activities.

Customer

- F14 In contracts with customers, the customer is the party that promises consideration in exchange for goods or services for which it obtains all, or substantially all, of the benefits from those goods or services. However, in various contracts with customers in any sector, the customer directs that goods or services are to be provided to third party beneficiaries (including individuals or the community at large) on the customer's behalf. In these contracts:
- (a) the customer remains the party that has contracted with the entity for those goods or services and promises consideration in exchange for those goods or services; and
 - (b) the provision of goods or services to third party beneficiaries is a characteristic of the promised transfer of goods or services to the customer.

- F15 For example, a not-for-profit entity in the private sector may receive consideration from a government for the specified purpose of providing first-aid training free-of-charge to members of the community. The government is the customer because it has contracted to obtain the first-aid training services. This conclusion is not affected by the fact that the government specifies that those services are to be provided to members of the community.

Commercial substance

- F16 Paragraph 9(d) specifies that the Standard applies to a contract with a customer only if (among other criteria) the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract). A contract may have 'commercial substance', for the purposes of paragraph 9(d), even if it is entered into by a not-for-profit entity for purposes that, in everyday language, would be considered 'non-commercial' (for example, contracts to provide goods or services to members of the community on a cost-recovery basis). This is because contracts to provide goods or services without generating a commercial return may nonetheless cause a change in the risk, timing or amount of the not-for-profit entity's future cash flows. Accordingly, for the purposes of application of the Standard by not-for-profit entities, 'commercial substance' shall be read as a reference to economic substance (ie giving rise to substantive rights and obligations).

Identifying whether a performance obligation exists

- F17 Paragraphs 22 and 30 of AASB 15 require that to enable an entity to identify the performance obligations that it should account for separately, each promise to transfer goods or services needs to be distinct – individually, or if not individually, as a bundle combined with other promises. The specificity of the promise to transfer goods or services can be quite different in the for-profit and the not-for-profit sectors. A necessary condition for identifying a performance obligation of a not-for-profit entity is that the promise is sufficiently specific to be able to determine when the obligation is satisfied. Judgement is necessary to assess whether a promise is sufficiently specific. Such judgement takes into account any conditions specified in the arrangement, whether explicit or implicit regarding the promised goods or services, including conditions regarding the following aspects:
- (a) the nature or type of the goods or services;
 - (b) the cost or value of the goods or services;
 - (c) the quantity of the goods or services; or
 - (d) the period over which goods or services must be transferred.
- [Staff intend to extend the drafting to explain that, in respect of NFP entities, a transfer of goods and services can take the form of the conduct of an activity; eg performing research]*
- F18 Whether a promise is sufficiently specific so as to qualify as a performance obligation is assessed separately for each promise and will depend on the facts and circumstances. No specific number or combination of the conditions noted in paragraph F17 need to be specified in an agreement for the promise to be sufficiently specific. In addition, there may be other conditions which need to be taken into account in applying the judgement above which may indicate that the promise is sufficiently specific.
- F19 Conditions specified regarding the promised goods or services may be explicit or implicit in an agreement. Paragraph 24 states that the performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in that contract. This is because a contract with a customer may also include promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer. A not-for-profit entity may make a statement of intent to spend a transfer in a particular way. While, as stated in paragraph F9(b)F9(b), a statement of intent would not of itself, be sufficient to cause the agreement to be enforceable, the statement of intent may be sufficient to meet the conditions in paragraph F17 to consider the promises to be 'sufficiently specific'.
- F20 In relation to paragraph 17(d)F17(d), a condition that a not-for-profit entity must transfer unspecified goods or services within a particular period does not, of itself, meet the 'sufficiently specific' criterion. For example, a not-for-profit entity may provide a number of services under its charter such as counselling and housing to disadvantaged youth. Where it receives a transfer to be used for an unspecified purpose over a particular time period, such a promise would not meet the 'sufficiently specific' criterion.
- F21 Some not-for-profit entities have a single purpose charter, such as to provide counselling services. Where such entities receive a transfer to be used over a particular time period, such a promise could meet the

‘sufficiently specific’ criterion as the nature of the services to be provided is implied under the arrangement and the stipulation to use the transferred funds over a particular time period enables a determination of when the service has been provided. However, if the transfer does not specify the period over which the entity must use the funds the entity would not meet the ‘sufficiently specific’ criterion because it would be unable to determine when it met the performance obligation.

- F22 An agreement may include a condition that the entity undertakes an acquittal process to demonstrate progress toward transferring goods or services. For example, the terms of an agreement may require the entity to report on progress toward specified outputs or outcomes in an acquittal process. Such an acquittal process may provide evidence of a promise to transfer goods or services that is ‘sufficiently specific’ depending on the level of the acquittal process and other facts and circumstances. An acquittal process may also enable a determination of progress towards satisfaction of the performance obligation.

Consequences of not satisfying the ‘enforceable arrangement’ and ‘sufficiently specific’ criteria

- F23 If a not-for-profit entity’s promise to transfer a good or service is made in an unenforceable arrangement with another party, a contract with a customer does not exist. If a not-for-profit entity’s promise to transfer a good or service in an arrangement with another party fails the ‘sufficiently specific’ criterion discussed in paragraphs F17-F22, that entity shall not treat the promise as a performance obligation in a contract with a customer.

Recognition of a donation component of a contract with a customer

- F24 A customer may enter into a contract with a not-for-profit entity with a dual purpose of obtaining goods or services and donating assets to help the not-for-profit entity achieve its objectives. An entity shall allocate the transaction price wholly against any performance obligations, and need not separately recognise any donation component.

- F25 This presumption may be rebutted if an component of the consideration is:

- (a) not refundable in the event the entity does not deliver the promised goods or services;
- (b) separately identifiable; and
- (c) not related to a performance obligation.

In such instances, the entity shall apply AASB 10XX to the unallocated portion of the transaction price.

- F26 An example that would satisfy the rebuttal of the presumption in paragraph F24 is where a not-for-profit heritage foundation sells on-line subscriptions that provide access for a year to particular heritage sites (a promised service to each customer) and invites subscribers to, in addition, donate a non-refundable nominated amount to generally assist the foundation in pursuing its mission. Such a donation, which is voluntary for a subscriber, is separately identifiable from the price of the annual subscription. However, if the annual subscription fee and the donation were both refundable if access were not provided for the entire subscription period, the presumption in paragraph F24 could not be rebutted as the donation would not be separately identifiable from the annual subscription for the promised access. In that case, the donation amount would not be accounted for separately and instead the donation amount would be included in the transaction price that is allocated to the performance obligation to provide membership access. Consequently, the donation amount would be recognised as revenue when (or as) performance obligations under the arrangement are satisfied in accordance with AASB 15. Similarly, if a fundraising dinner hosted by a charity has an advertised donation component of the ticket price but the entire ticket price would be refundable if the dinner were cancelled by the charity, the presumption in paragraph F24 would not be rebuttable as the donation component is not separately identifiable from the consideration for the promised dinner.

AUSTRALIAN ILLUSTRATIVE EXAMPLES FOR NOT-FOR-PROFIT ENTITIES

These illustrative examples accompany, but are not part of, AASB 15. They illustrate aspects of the Australian guidance for not-for-profit entities in AASB 15, 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 2016-X.

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.