



<b>Project:</b>	<b>Income of Not-for-Profit Entities</b>	<b>Meeting</b>	AASB April 2016 (M151)
<b>Topic:</b>	<b>Redeliberations – determining a separately identifiable donation component in a contract, contributions by owners, and control of perpetual endowments</b>	<b>Agenda Item:</b>	5.1
<b>Contact(s):</b>	Mark Shying <a href="mailto:mshying@asab.gov.au">mshying@asab.gov.au</a> (03) 9617 7645 Joanna Spencer <a href="mailto:jspencer@asab.gov.au">jspencer@asab.gov.au</a> (03) 9617 7620	<b>Project Priority:</b> High <b>Decision-Making:</b> High <b>Project Status:</b> Redeliberations	

## Introduction and objective of this paper

- 1 The objective of this paper is to obtain Board decisions regarding the project plan and redeliberation of the following ED 260 *Income of Not-for-Profit Entities* proposals for the:
  - (a) two-step analysis to determine a separately identifiable donation component in a contract with a customer; and
  - (b) treatment of contributions by owners and issues related to contributions by owners; and
  - (c) control of perpetual endowments.
- 2 This paper is structured as follows:
  - (a) Summary of staff recommendations (paragraph 3)
  - (b) Two-step analysis to determine a separately identifiable donation component in a contract with a customer (paragraphs 4-33)
  - (c) Contributions by owners and issues related to contributions by owners (paragraphs 34-45)
  - (d) Control of perpetual endowments (paragraphs 46-83)

- (e) Project plan (paragraphs 84-85)
- (f) Appendix A: Relevant ED 260 proposals marked up for staff recommendations<sup>1</sup>
- (g) Appendix B: Summary of Board tentative decisions to date
- (h) Appendix C: Draft project plan and next steps

### **Link to project summary**

[http://www.aasb.gov.au/admin/file/content102/c3/Income\\_of\\_Not\\_for\\_Profit\\_Entities\\_Project\\_Summary.pdf](http://www.aasb.gov.au/admin/file/content102/c3/Income_of_Not_for_Profit_Entities_Project_Summary.pdf)

### **Summary of staff recommendations**

3 Staff recommend:

- (a) replacing the two-step analysis for determining a separately identifiable donation component in a contract with a customer with a rebuttable presumption. The presumption would be that in providing goods and/or services to a customer, the consideration received by the not-for-profit entity does not include a donation component, unless a part of the consideration is not refundable. An indicator that a customer intended to make a donation is that the donation is separately identified. For example, because the not-for-profit entity has the status of deductible gift recipient and the customer can claim a tax deduction for the donation;
- (b) that ‘contributions by owners’ be considered as a separate project and, in the interim, to retain the current definition of contribution by owners in AASB 1004 *Contributions* and Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*; and
- (c) the project plan be revised to reflect updated expected timing.

### **Two-step analysis to determine a separately identifiable donation component in a contract with a customer**

#### ***Background***

4 ED 260 proposed that when a not-for-profit entity’s promise to transfer goods or services to a customer is within the scope of AASB 15, the entity should consider the proposed AASB 15 not-for-profit guidance to determine whether the contract includes a separately identifiable donation component (ED 260 Appendix E paragraph IG20).

5 This involves a two-step analysis:

Step 1: A qualitative assessment of whether the customer intended to make a donation.

---

<sup>1</sup> The link to ED 260 *Income of Not-for-Profit Entities* is [http://www.aasb.gov.au/admin/file/content105/c9/ACCED260\\_04-15.pdf](http://www.aasb.gov.au/admin/file/content105/c9/ACCED260_04-15.pdf)

Step 2: On satisfying Step 1, a donation is separately identifiable from the promised goods or services in the contract when all of the following criteria are met:

- there is evidence of a donation;
- the entity's entitlement to retain the donation is not conditional; and
- the amount of the donation component can be measured reliably.

6 If there is no separately identifiable donation component, the entire amount of consideration from the customer is allocated to the performance obligations in the contract. On the other hand, if the contract includes a separately identifiable donation component, the component is excluded from the measurement of the performance obligation and is immediately recognised as income under [draft] AASB 10XX.

7 The AASB initially explored using a measurement-driven 'residual' approach to identify donation components of contracts with customers. [paragraph BC42]<sup>2</sup> An identifiable donation component is present when there was a difference between the performance obligations arising from a contract measured as the stand-alone selling price of those goods or services and the transaction price. Paragraph BC43 states the reasons why the AASB proposed the two-step analysis approach in place of the residual approach.<sup>3</sup> In summary, those reasons were:

- (a) the risk of mistakenly identifying donation components in contracts with customers, because of measurement error; and
- (b) the time and cost of estimating the aggregate of the stand-alone selling prices of the promised goods or services separately from the transaction price would often exceed the benefits to users.

### ***Feedback received on the two-step approach***

8 The majority of constituents held the view that an identifiable donation component in a contract with a customer should be accounted for separately from revenue that arises from settling the performance obligations in the contract.

9 Of the constituents holding this view, some:

- (a) agreed with the ED 260 proposal for the two-step analysis, whereby a donation component is recognised as immediate income only when both steps in the two-step analysis are satisfied. Those constituents noted that the 'customer intention' test is appropriate because it would save entities the cost of endlessly scrutinising prices in contracts to assess whether, implicitly, a donation component exists;

---

<sup>2</sup> Appendix A.

<sup>3</sup> Appendix A.

- (b) disagreed with performing the first step of the two-step analysis, the qualitative assessment of whether a donation component is separately identifiable (based, in part, on whether the customer intended to make a donation). They argued that it is illogical and unworkable to impose a ‘customer intention’ test for separately identifying a donation component. Those constituents do not consider this intention test to be necessary to recognise a donation component and it imposes an unnecessary hurdle; and
  - (c) constituents identified two alternative approaches to the ED 260 approach, being:
    - (i) that a component identified separately for tax deductibility by the customer is a donation component and is therefore recognised as immediate income. Some constituents noted that tax deductibility affects refundability and that refundability should be the key criterion in determining donation components as it is a simpler test to apply; and
    - (ii) a rebuttable presumption that in providing goods and/or services to a customer the price received by the not-for-profit entity does not comprise a donation component, except when:
      - (A) there is an active market for the same goods or services; and
      - (B) there is a material difference between the fair value of the goods or services based on current prices from the relevant active market and the transaction price.
- 10 Some constituents argued that accounting separately for donation components does not provide information sufficiently useful to justify the cost.
- 11 Some constituents commented that the AASB should consider whether entities should be prohibited from recognising a donation component if it is material at an aggregate portfolio level and the criteria are met. It was noted that paragraph BC52 of ED 260<sup>4</sup> further implies that materiality assessments at a contract versus portfolio level are a policy decision which is inconsistent with that in paragraph IG28.<sup>5</sup>
- 12 The Project Advisory Panel discussed whether the imposition of a ‘customer intention’ test as a step for identifying the presence of a separately identifiable donation component is intuitive. The Panel noted that, while understanding customer relationships was fundamental to the operation of AASB 15, the two-step analysis approach is not intuitive as it suggests that the not-for-profit entity ‘stand in the shoes’ of the customer, appeared over complicated and that non-refundability was the key criterion in the second step.

---

<sup>4</sup> Appendix A.

<sup>5</sup> Appendix A.

### *Staff analysis*

- 13 ED 260 proposed that the identifiable donation component in a contract with a customer should be accounted for separately from revenue that arises from settling the performance obligations in the contract. Based on the feedback received on the proposals, there is broad support for retaining this requirement in the final Standard. Accordingly, staff do not propose any change to this proposal.
- 14 However, in response to the mixed feedback received in relation to how an entity identifies whether a contract with a customer include a donation component (that is, the two-step approach), staff propose some amendments to the proposals to simplify the requirements to help address constituent concerns in relation to the complexity of the proposals.

### Rebuttable presumption

- 15 To help address the concerns raised by constituents in relation to the complexity of the ‘customer intention’ test, staff are of the view that a more effective method of addressing whether a donation component exists within a contract or not is to include a rebuttable presumption test.
- 16 A key advantage of using the rebuttable presumption is simplicity – it is an effective way of providing certainty in the operation of the finalised Standard. A further advantage is that the change to the rebuttable presumption would remove the need for the ‘customer intention’ test. Staff note the role of the ‘customer intention’ test in the ED proposal is to limit the exceptions to the proposition that a contract with a customer does not include a donation - an implied rebuttable presumption. A disadvantage of restating this implied rebuttable presumption as an explicit rebuttable presumption is it does not have a strong conceptual basis; however, as a practical expedient that eliminates some of the complexities of the proposal, staff consider the presumption is better able to reflect economic reality.
- 17 Accordingly, staff recommend amending paragraph IG19 to read as follows (please note that the circumstances in which the presumption can be rebutted are discussed in paragraphs 19-32 below).

“There is a rebuttable presumption that in providing goods and/or services to a customer, the consideration received by the not-for-profit entity does not include a donation component, unless...”

### **Question 1 for Board members**

Do Board members agree with the rebuttable presumption? If not which approach does the Board prefer?

- 18 Note that the following analysis assumes that the Board agrees with the question in paragraph 17 above.

### Rebutting the presumption

- 19 Based on feedback received, and discussions with Panel members, staff have identified three alternative approaches that could be applied to rebut the presumption

that the consideration received does not include a donation component. Staff are not aware of other alternatives. The three approaches are:

- (a) Approach 1: Tax deductibility
- (b) Approach 2: Active market/fair value
- (c) Approach 3: No refundability

#### Approach 1: Tax deductibility

- 20 The tax deductibility approach considers that in providing goods and/or services to a customer, the consideration received by the not-for-profit entity does not include a donation component except that a component of the consideration received for the promised goods or services is identified separately as a donation when the not-for-profit entity has the status of deductible gift recipient (DGR) and the customer can claim a tax deduction for the donation.
- 21 This approach was identified in the feedback received on the ED (see paragraph 9 above) and was also discussed by the Panel.
- 22 The Panel noted a benefit of this approach is that it is clear that part of the consideration paid by the customer is not part of the consideration for the promised goods or services as it was the customer's intention to make an unconditional donation of an amount that can be reliably measured. A limitation of this approach is that the accounting for a donation component of a contract for goods or services that exists in the absence of tax deductibility would not be consistent with the customer's intention. For example, not all charities have DGR status. Panel members did not express a concern with this outcome.

#### Approach 2: Active market/fair value

- 23 The active market/fair value approach would rebut the presumption that the consideration does not include a donation component when:
  - (a) there is an active market for the same goods or services; and
  - (b) there is a difference between the fair value of the goods or services based on current prices from the relevant active market and the transaction price, and the difference is material.
- 24 This approach was identified in the feedback received on the ED (see paragraph 9 above) and was also discussed by the Panel.
- 25 The Panel noted that this approach shares some of the characteristics of the 'residual approach' and that, in outreach activities conducted in the development of ED 260, the Board noted that this approach was not widely supported.<sup>6</sup> However, staff note that

---

<sup>6</sup> Appendix A. Basis for Conclusions paragraphs BC43-44.

one important difference between this approach and the ‘residual approach’ is that the starting point for the ‘residual approach’ was not the rebuttable presumption.

- 26 The Panel also noted that there were likely to be considerable challenges in identifying the existence of an active market and the fair value of the goods or services – including the time and cost. The Panel specifically noted that this approach would likely have implications for the conduct of an audit. Accordingly, the Panel did not support this approach.

### Approach 3: No refundability

- 27 The no-refundability approach would rebut the presumption that the consideration does not include a donation component when there is a component of the consideration received that is identified as not refundable.
- 28 This approach was identified in the feedback received on the ED (see paragraph 9 above) and also discussed by the Panel.
- 29 Paragraph IG25 of ED 260 illustrates the role of ‘no refundability’ in ED 260 as do Illustrative Examples 7 and 8.<sup>7</sup> Some Panel members noted there was a relationship between consideration having a ‘no refundability’ condition and a donation. These Panel members supported ‘no refundability’ as an indicator of the existence of a donation.
- 30 One advantage of the no-refundability approach is that it is consistent with Approach 1, and extends it. For example, paragraph 22 identified a problem with Approach 1 was that a donation component of a contract for goods or services with a charity not having DGR status would not cause the presumption that there is not a donation to be rebutted. Approach 3 addresses this issue. The fact that it can be unclear, before a breach occurs, whether an amount is refundable may be seen as a disadvantage for this approach. Staff are not of this view. After all, in the absence of evidence to rebut the presumption when obtaining control of the consideration, there is no donation – an outcome that is intuitive.

### ***Staff recommendation***

- 31 Staff do not consider Approach 2 as being suitable for rebutting the presumption that the consideration received does not include a donation for the reasons described in paragraph 26 above. Staff do consider Approaches 1 and 3 are appropriate for the reasons provided and note their relationship. Staff are not aware of any other approaches. Staff consider it appropriate to rebut the presumption that the consideration received does not include a donation component if a part of the consideration is not refundable. An indicator that a customer intended to make a donation is that the donation is separately identified. For example, because the not-for-profit entity has the status of deductible gift recipient and the customer can claim a tax deduction for the donation.
- 32 On this basis, staff have marked up Appendix A.

---

<sup>7</sup> Appendix A.

- 33 Based on the above analysis, staff recommend:
- (a) replacing the two-step analysis for determining a separately identifiable donation component in a contract with a customer with a rebuttable presumption. The presumption would be that in providing goods and/or services to a customer, the consideration received by the not-for-profit entity does not include a donation component, unless a part of the consideration is not refundable. An indicator that a customer intended to make a donation is that the donation is separately identified. For example, because the not-for-profit entity has the status of deductible gift recipient and the customer can claim a tax deduction for the donation; and
  - (b) that this recommendation be operationalised as shown in Appendix A. Appendix A is marked up for the staff recommendation by:
    - (i) deleting punctuation, words, sentences and paragraphs shown with strikethrough; and
    - (ii) adding punctuation and words, sentences and paragraphs shown with underline.

**Question 2 for Board members**

Do Board members agree with the staff recommendation?

**Treatment of contributions by owners and issues related to contributions by owners**

***Background***

- 34 In the development of ED 260, the AASB noted the concerns of some constituents with the existing definition of ‘contributions by owners’ and AASB Interpretation 1038 that includes for-profit public sector entities within its scope. The AASB 1004 definition of “contributions by owners [is] 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.” [AASB 1004 Appendix A]
- 35 ED 260 does not include a specific proposal by the AASB regarding the definition of ‘contributions by owners’. Instead, the ED illustrated what a replacement Standard for AASB 1004 would look like without that definition and particular related guidance and posed related questions including whether a definition of ‘contributions by owners’ is still necessary, or appropriate.



### ***Feedback received on contributions by owners and related issues***

- 36 The majority of constituents' submissions and constituents attending the roundtables noted the definition in AASB 1004 can be problematic, identified a need for a definition of contributions by owners and expressed their support for applying the IPSASB definition or using the IPSASB definition as the basis for an Australian definition. One constituent who commented on the issue from the perspective of not-for-profit sector entities in the private sector was of the view that practical guidance on circumstances where contributions should be recorded directly in equity or within the profit and loss would be of benefit to the sector.
- 37 The need to minimise diversity was cited by the majority of respondents as the reason a definition was necessary.
- 38 Some constituents rejected the need for the accounting standards to include a definition and other constituents supported the AASB taking on a separate project to address current application issues.
- 39 The majority of constituents supported the withdrawal of the Interpretation.

### ***Staff analysis***

- 40 ED 260 did not include a specific proposal by the AASB regarding the definition of 'contributions by owners'.
- 41 One approach that the AASB might consider is to withdraw and not replace the current definition in AASB 1004 and Interpretation 1038. Staff note that there is no equivalent definition in IFRS. This approach is consistent with feedback from some constituents. However, most constituents see benefit in a definition, notwithstanding there is no equivalent definition in IFRS. The Project Advisory Panel was of the same view. It was noted that within jurisdictions, internal consistency in approach within a public sector in the absence of AASB 1004 and the Interpretation could be achieved by that jurisdiction developing its own policies on 'contributions by owners'. However, that does not ensure consistency across jurisdictions. Some advisers to private not-for-profit entities noted that the presence of a definition is helpful in their discussions with those charged with the governance of those entities. Staff consider that at this time it would not be appropriate to withdraw the current definition and the Interpretation and leave a vacuum.
- 42 Another approach that the AASB might consider is to replace the current definition in AASB 1004 with the definition of ownership contributions adopted by the IPSASB. "Ownership contributions are: inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity." [IPSASB Framework paragraph 5.34] The reason the IPSASB Framework includes a definition is that the IPSASB "...concluded that it is important to distinguish inflows of resources from owners and outflows of resources to owners, in their role as owners, from revenue, expenses, other resources and other elements. Detailed guidance to support the assessment of whether certain inflows and outflows of resources satisfy the definitions of ownership contributions and ownership distributions will be developed at a standards level, as appropriate."

[IPSASB Framework paragraph BC5.68]. The AASB would then need to separately consider whether to retain an amended Interpretation 1038.

- 43 Staff note that there is constituent support for the AASB taking on this topic as a separate project. A benefit of separating out the work on the ‘contributions by owners’ topic from the other topics in ED 260 is that the finalisation of the Standards for those other topics would not be held up. The Panel supported this approach along with the retention of the current definition in AASB 1004 and Interpretation 1038 for the time being. The Panel did not support the use of the IPSASB definition as an interim measure as there was the possibility that the outcome of a separate project could be something different from that definition. Staff note that taking on this topic as a separate project would impose a different time frame on addressing constituent concerns with the current requirements.
- 44 Staff note that finalisation of the contributions proposals would need to consider whether re-exposure of this section of the Exposure Draft is required, regardless of the approach taken (AASB Policies and Processes).<sup>8</sup>

### ***Staff recommendation***

- 45 Based on the above analysis, staff recommend:
- (a) the Board taking on the topic of ‘contributions by owners’ as a separate project; and
  - (b) the retention of the current definition in AASB 1004 and Interpretation 1038 until that project is completed.

### **Question 3 for Board members**

Do Board members agree with the staff recommendation? If not, which approach would the Board like to pursue?

## **Control of perpetual endowments**

### ***Background and feedback received on perpetual endowments***

- 46 At the September 2015 AASB meeting, staff provided the Board, in [Agenda Paper 14.2](#), with an overview of comment letters received to ED 260. The paper highlighted some constituent concerns about the proposals and accounting treatment of perpetual endowments. Constituents also requested additional guidance and examples of accounting for bequests.

---

<sup>8</sup> [http://www.aasb.gov.au/admin/file/content102/c3/Policy\\_Statement\\_03-11.pdf](http://www.aasb.gov.au/admin/file/content102/c3/Policy_Statement_03-11.pdf)

- 47 Discussions at outreach sessions raised questions as to whether the recipient of a donation that creates a perpetual endowment:
- (a) controls the perpetual endowment (Issue 1); and
  - (b) could ever fulfil any attached performance obligations because of the requirement for the resource to be maintained in perpetuity (Issue 2).
- 48 The objective of this section of this paper is to consider Issue 1. Because control is one aspect of the definition of an asset, to address Issue 1, all attributes of an asset will be considered.
- 49 Future directions for staff on Issue 1 will depend on the decision made by the Board regarding whether they agree with the staff view that in the circumstances detailed below, perpetual endowments meet the definition of an asset and therefore are controlled by the entity that receives them.
- 50 Staff propose that Issue 2 be considered by the Board at a future meeting. Staff have had initial discussions with some constituents, all within the education sector, regarding how they currently account for perpetual endowments. However, staff consider that further targeted outreach with other entities such as charities and art institutions is required. It is intended that this discussion, accompanied by further guidance and illustrative examples be brought to the Board at a future meeting.
- 51 For the purposes of this paper, a perpetual endowment arises when resources are donated with the purpose of being used in perpetuity to achieve a specified purpose or purposes. The endowment is usually made with the requirement that the resources remain intact (either at nominal or real value) and income earned from resources be used for specific purposes (e.g. providing a scholarship in perpetuity). Perpetual endowments can take many forms but are often funds or physical assets such as buildings or artworks.<sup>9</sup>
- 52 ED 260 does not provide any guidance on endowments, perpetual or otherwise. In some circumstances endowments arise from bequests. ED 260 paragraphs AG8-AG9 (see Appendix A) address bequests, but only in the context of when a bequest should be recognised (that is, after probate – when it is probable that the economic resources will flow the entity and the fair value of the bequest can be measured reliably).
- 53 The footnote to paragraph AG9 suggests that bequests would typically not give rise to performance obligations and therefore typically would not occur in contracts with a customer. This may be an indication of why further guidance on bequests was not provided in ED 260. However, as noted in paragraph 47(b) above, bequests may have performance obligations attached.
- 54 Control of perpetual endowments was raised as an issue during the outreach on ED 260 because of the restrictions attached to them (see paragraph 51 above). That is,

---

<sup>9</sup> There may be any number of types of items that can be donated to create perpetual endowments, and the facts and circumstances of each donation would have to be considered in each case.

if an entity does not have unfettered use of the resources, does the entity really have control?<sup>10</sup>

### Current Practice

#### *Australia*

- 55 Discussions with a small number of constituents and a high-level review of the financial statements of several entities that receive perpetual endowments (universities and art galleries) indicate that the current practice within Australia is that on receipt of the endowment an asset and revenue is recognised. The value of the endowment is subsequently recognised as an accumulation in equity as a restricted reserve.

### International Literature

- 56 Staff have conducted a very high level review of requirements in several jurisdictions and provide the following comments.

#### *United Kingdom*

- 57 Public benefit entity reporting in the UK generally applies FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* is based on IFRS for SMEs. FRS 102 does not provide specific requirements for accounting for perpetual endowments. However, guidance on the application of FRS 102 is provided through the use of Statements of Recommended Practice (SORP). Staff have reviewed the SORPs issued by the Charity Commission and Universities UK for use by charities and further and higher education institutions (e.g. universities) respectively. Similar to the current practice noted in paragraph 55 above, on receipt of the endowment an asset and revenue is recognised. The value of the endowment is subsequently recognised as an accumulation in equity as a restricted reserve. These endowments are required to be classified separately in restricted reserves.

#### *New Zealand*

- 58 PBE IPSAS 23 *Revenue from Non-Exchange Transactions* is based on IPSASB 23 *Revenue from Non-Exchange Transactions* but provides additional implementation guidance for not-for-profit entities. The NZ accounting treatment is similar to Australian practice and UK requirements noted above. Whilst there is no requirement to classify restricted funds as such, the NZASB noted in paragraph BC3(b) that “there is nothing that would prevent entities from following a columnar approach in the statement of comprehensive revenue and expense or in the statement of financial position to distinguish between restricted and unrestricted funds”.

---

<sup>10</sup> In the context of this paper, it is assumed that entities receiving perpetual endowments have assessed any attached restrictions and concluded that the resources provided will benefit the entity in achieving its objectives.

## ***Staff analysis***

59 This paper examines three types of donated resources, funds, buildings and artwork that may be donated as perpetual endowments. The following paragraphs will discuss whether these endowments would meet the definition of an asset when their use is restricted and they are required to be held in perpetuity.

### Definition of an Asset

60 Given the timing of when any pronouncement resulting from this project would be applicable, staff considered it appropriate to base discussions on the proposals in the IASB's Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* (CF).

61 The proposed (CF) suggests an asset be defined as:

A present economic resource controlled by the entity as a result of past events.<sup>11,12</sup>

62 An economic resource is defined as:

A right that has the potential to produce economic benefits.

63 Therefore, the three essential attributes of an asset are:

- (a) rights that have the potential to produce economic benefits;
- (b) control; and
- (c) past event.

64 This analysis will consider the attributes at paragraphs 63(a) and 63(b). The attribute 'past event' will not be specifically addressed because staff consider that if an entity is the recipient of a perpetual endowment, a past event has occurred.

### Rights

65 The guidance in the proposed CF at paragraph 4.8 suggests that rights are established by contract, legislation or similar means, such as:

- (a) rights arising from a financial instrument, for example, an investment in a debt instrument or in an equity instrument; or
- (b) rights over physical objects, such as property, plant and equipment or inventories. Such rights may include ownership of a physical object, the right to use a physical object or the right to the residual value of a leased object.

---

<sup>11</sup> The AASB agreed with the proposed asset definition in its submission to ED /2015/3.

<sup>12</sup> IASB Staff Paper [Agenda Ref 10D](#) Conceptual Framework Feedback summary: Elements of financial statements Assets, presented at the March 2016 IASB meeting indicates that there was broad support for this proposed definition.

### Potential to produce economic benefits

- 66 Paragraph 4.13 of the proposed CF states that “For an economic resource to produce economic benefits, it need not be certain, or even probable, that the resource will produce economic benefits. It is only necessary that the economic resource already exists and that there is at least one circumstance in which it would produce economic benefits”.
- 67 Economic benefits, at paragraph 4.14 of the proposed CF could include:
- (a) receiving contractual cash flows;
  - (b) using the economic resource to produce cash inflows (or save cash outflows);  
or
  - (c) leasing the economic resource to another party.
- 68 Further, paragraph 4.15 states “Although an economic resource derives its value from its existing potential to produce future economic benefits, the economic resource is the existing right, not the future economic benefits”.
- 69 Applying the principles for *rights* and *potential to produce economic resources* to the three types of perpetual endowments stated above in paragraph 59 staff provide the following comments.

### *Funds*

- 70 In some circumstances, an entity is endowed with a sum of money to support the entity and its objectives with the restriction that the capital amount cannot be eroded. However, income from that capital amount must be used for a specific purpose, in accordance with the terms specified by the donor (e.g. to award a scholarship each year in perpetuity). Therefore, the entity must manage those resources to produce an income stream from which to fund the scholarship. In this case, the entity will have a right to receive that income from the investments they make when managing the resources.
- 71 The investment of the donated funds may or may not produce economic benefits (depending on the market) but as the proposed CF states, there only has to be a potential for the resources to make a return (economic benefit) for the criteria of an asset to be met.

### *Building*

- 72 In a scenario whereby an entity is endowed with a building that is restricted from being sold and can only be used by the entity in furthering its objectives, (e.g. to provide education), the entity has the right to use the building and the economic benefits received. For example, it may result in a reduction in outflows of having to purchase another building to use.

## *Artwork*

- 73 An entity (e.g. art gallery) may be endowed with an artwork that cannot be sold but must be periodically placed on display for public viewing, the entity has the right to receive any increased income that artwork may generate through extra entrance fees. In addition, paragraph Aus49.1<sup>13</sup> of the existing conceptual framework states that in the not-for-profit sector economic benefit is synonymous with service potential<sup>14</sup>. Therefore, an artwork allows an entity to fulfil its objective of providing artwork for public viewing through the service potential provided by the artwork.

## Control

- 74 The proposed CF defines control as:

The present ability to direct the use of an economic resource and obtain the economic benefits that flow from it.

- 75 Applying the principles for *directing the use of economic resources*, and *benefits flowing to the entity* the three types of donated resources stated above in paragraph 59, staff provide the following analysis.

## *Funds*

- 76 Regarding the scenario in paragraph 70, the entity is required to use the income stream produced by the endowment to fund a scholarship into perpetuity. It may be argued that because the entity has no alternative use for the income than to provide the scholarship, it does not have the ability to direct its use. However, AASB 10 *Consolidated Financial Statements* provides some guidance regarding predetermined decisions. AASB 10 paragraph B53 states that activities that are predetermined (e.g. a scholarship has to be awarded) are not relevant to addressing exposure to variable returns as one of the criteria for determining control. Only the activities (and decisions) that are not predetermined are relevant. Therefore, in this context, the relevant decision to be made is to whom to award the scholarship and when, and these are decisions made by the entity.
- 77 The benefits that will flow to the entity are the achievement of its objectives of providing education. The service potential of the scholarship contributes to this objective.

## *Building*

- 78 With regards to a building that must be used by the entity for furthering its objectives, the entity has the choice on how that building should be used in achieving its objectives. It may be that the type of building may direct this decision, for example if

---

<sup>13</sup> The proposed CF does not have NFP guidance and the Board will need to consider whether any NFP guidance should be included in any revised framework that eventuates from the IASB ED.

<sup>14</sup> ‘Service potential’ is described in the IPSASB Conceptual Framework as “the capacity to provide services that contribute to achieving the entity’s objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows”.

the building was a gymnasium, this might be the most appropriate use for it. However, the ultimate decision regarding that building use lies with the entity. Therefore, the entity has the right to direct the use of the economic resource.

- 79 As with the funds scenario above, the benefits that flow to the entity are reflected in the service potential the building provides to the entity in achieving its objectives.

#### *Artwork*

- 80 The scenario outlined in paragraph 73 requires the entity to retain the endowed artwork and periodically place it on display for public viewing. In these circumstances, the entity can direct the artworks use by placing it on display in a permanent exhibition, lending it to another gallery for a temporary exhibition or even lease it to a travelling exhibition. In all cases, the use of the resource is still within the restrictions attached to it.

- 81 As with the previous two scenarios, the benefits that flow to the entity are the achievement of the entity's objectives.

#### *Staff view*

- 82 Based on the above analysis, staff are of the view that in some circumstances it is possible for an entity to control a perpetual endowment as it meets the definition of an asset as per the proposed CF.

#### **Question 4 for Board members**

Do Board members agree with the staff view?

#### *Future direction*

- 83 If the Board agrees with the staff view that perpetual endowments can meet the definition of an asset, staff intend to bring Issue 2 (whether the recipient of a donation that creates a perpetual endowment could ever fulfil any attached performance obligations because of the requirement for the resource to be maintained in perpetuity) to a future Board meeting.

#### **Question 5 for Board members**

Is there any other action Board members wish staff to undertake in relation to Issue 1? If so, what action does the Board wish staff to take?



## **Project plan**

- 84 Staff have prepared a draft revised project plan based on redeliberations to date and after discussions with the Project Advisory Panel (see Appendix C).
- 85 The revised project plan proposes that a review of the Ballot draft be deferred until the December Board meeting and the vote on the Ballot draft be deferred by three months to December 2016/January 2017.

### **Question 6 for Board members**

Do Board members agree with revised project plan?

## **Appendix A: The proposals in ED 260 marked up for staff recommendations**

The proposal in ED 260 are marked up for staff recommendations by:

- deleting punctuation, words, sentences and paragraphs shown with strikethrough; and
- adding punctuation and words, sentences and paragraphs shown with underline.

### ***Control of bequests***

#### **Application Guidance**

#### **Bequests**

AG8 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 therefore control of, the bequeathed items. This occurs when probate has been granted and, depending on the facts and circumstances, either the period for challenging the Will has expired or the Will has been challenged and it is legally determined that the entity is entitled to particular assets or amounts;
- (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.

AG9 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 bequeathed items and receiving any assets. The entity shall assess whether the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. Whether the initial recognition of bequeathed items as assets simultaneously gives rise to the recognition of income will depend on whether a liability of the entity arises from the bequest (for example, the entity has a performance obligation under a contract with a customer, to be accounted for in accordance with AASB 15, because the Will requires the entity to use bequeathed items in a particular manner that is sufficiently specific to be able to determine when the performance obligation is satisfied<sup>15</sup>).

#### **Basis for Conclusions**

#### **Control of a bequeathed item**

BC59 Paragraph AG10(a) of Part B of the ED states that control of an item bequeathed to the entity is obtained when probate has been granted and, depending on the facts and circumstances, either the period for challenging the

---

<sup>15</sup> See the guidance on a 'sufficiently specific' promise to transfer a good or service to a customer, in paragraphs IG13–IG17 of 'Appendix E [for AASB 15]' in Part A of this Exposure Draft. Bequests are discussed in this [draft] Standard, because bequests typically would not give rise to performance obligations and therefore typically would not occur in contracts with customers. For bequests involving performance obligations (eg a hospital's obligation to use bequeathed funds to finance the construction of a new wing of a building), AASB 15 would apply and the customer would be the trustee of the deceased estate, acting on behalf of the deceased person.

Last Will and Testament (Will) has expired or the Will has been challenged and it is legally determined that the entity is entitled to particular assets or amounts. The AASB noted that some argue that control of a bequeathed item is obtained upon the death of the deceased person who made the Will. They express this view on the basis that the entity has a privileged position of being named as a beneficiary in a Will. However, the AASB noted that:

- (a) the asset to account for is a receivable. This is a different asset from the intangible benefit that an entity has of being named as a beneficiary in a Will (such benefit exists before the death of the testator). Recognition of such intangible benefits would involve a broader view of intangible assets than that reflected in AASB 138, and it is unclear whether the benefits of their recognition would exceed the related costs (see also (c) below);
- (b) until no other party holds a right to challenge the Will, the entity does not have an enforceable right to receive the bequeathed items; and
- (c) requiring entities to recognise bequeathed items before probate has been granted would impose an obligation to account for inflows of assets that an entity might be unaware of. In addition, requiring recognition of inflows of assets that might be challenged by another party would impose unnecessary costs. In relation to views of some that bequeathed items should be recognised before the entity has an enforceable claim to those items, the AASB considers that, in view of:
  - (i) the irregular nature of bequests; and
  - (ii) the fact that not-for-profit entities generally would not rely on bequests as a source of recovery of the costs of the goods and services they provide to beneficiaries,

waiting until the entity has an indisputable claim to those assets before recognising bequeathed items is appropriate to ensure the benefits of providing that information exceed the related costs.

### ***Two-step analysis to determining a separately identifiable donation component in a contract with a customer***

#### **Implementation Guidance**

#### **Recognition of a Donation Component of a Contract with a Customer**

IG19 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 benevolent objectives. There is a rebuttable presumption that in providing goods and/or services to a customer, the consideration received by the not-for-profit entity does not include a donation component, unless a part of the consideration is not refundable. An indicator that a customer intended to make a donation is that the donation is separately identified. For example, because the not-for-profit entity has the status of deductible gift recipient and the customer can claim a tax deduction for the donation.

-

The donation represents the amount of consideration that is not attributable to the goods or services promised by the entity to its customer.

IG20 A not-for-profit entity shall account for a separately identifiable donation component of a contract with a customer separately from the revenue that is recognised when the entity transfers a good or service to the customer. The donation component is recognised as donation income under [draft] AASB 10XX when the entity recognises the inflow(s) of the donated asset(s). Consequently, the consideration attributable to the separately identifiable donation component is excluded from the transaction price allocated to each performance obligation in the contract.

~~IG21 The identification of whether a contract with a customer includes a donation component to be accounted for separately requires a qualitative assessment, using the available evidence, of whether:~~

- ~~(a) the customer intended to make a donation to the entity (see paragraphs IG22-IG23); and, if so,~~
- ~~(b) the donation is separately identifiable from the goods or services promised in the contract (see paragraphs IG24-IG30).~~

#### ~~Customer's intention to make a donation~~

~~IG22 Examples of evidence of a customer's intention to make a donation to the entity in addition to purchasing goods or services from the entity include any one or more of the following:~~

- ~~(a) the goods or services are promised as part of a fundraising event being held by, or on behalf of, the entity;~~
- ~~(b) a portion of the consideration is identified as being a tax deductible donation; or~~
- ~~(c) an invitation to the customer to increase the amount of promised consideration specifically for the purposes of making a donation to the entity, which the customer has accepted.~~

~~IG23 If there is no qualitative evidence to suggest an intention of the customer to make a donation, a substantial difference between the amount of promised consideration and the estimated stand-alone selling prices of the promised goods or services should cause the entity to investigate further whether those stand-alone selling prices have been estimated faithfully or whether there are any other promised goods or services in the contract that were not previously identified. For example:~~

- ~~(a) the entity might conclude that a stand-alone selling price of a promised good or service estimated using an adjusted market assessment approach or an expected cost plus a margin approach [see paragraphs 79(a) and (b)] includes adjustments or margins that do not faithfully represent the stand-alone selling price for the good or service that is applicable for the circumstance and class of customer involved; and~~

- (b) ~~as a consequence of re-estimating the stand-alone selling price of that promised good or service, the entity might ultimately conclude that the contract does not include a donation component.~~

### **~~Separately identifiable donation component~~**

~~IG24 A donation is separately identifiable from the goods or services promised in the contract if all of the following criteria are met:~~

- (a) ~~there is evidence that part of the consideration paid or payable by the customer is not part of the consideration to which the entity expects to be entitled in exchange for the promised good or service;~~
- (b) ~~the entity's entitlement to retain the donation is not conditional on that entity transferring a good or service to the customer (donor); and~~
- (c) ~~the amount of the donation component can be measured reliably.~~

IG25 An example that would satisfy the rebuttal of the presumption criteria in paragraphs IG1924(a) and ~~(b)~~ 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 and their amounts can be measured reliably. However, if the annual subscription fee and the donation were both refundable if access were not provided for the entire subscription period, the presumption criterion in paragraph IG1924(b) would not be rebutted and 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 as the access services are provided. 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 criterion in paragraph IG1924(b) would not be rebutted and the donation component would not be separately identifiable from the consideration for the promised dinner.

~~IG26 A separately identifiable donation to a not-for-profit entity does not arise merely because a customer chose to purchase a good or service from that entity to help the entity pursue its benevolent aims, even if the customer agrees to pay more for a good or service because it is provided by a benevolent entity. For example, if a charity raises funds by selling leather footballs that are manufactured by a sporting goods supplier and embossed with the charity's logo, a premium charged for those footballs compared with the typical price of those footballs purchased from various major sporting goods retailers (that is, without the charity's logo) does not indicate that there is an identifiable donation component. This is because a football with a charity's logo should not be presumed to have the same stand-alone selling price as a football without that~~

~~logo that in all other respects is identical (for example, buyers of footballs with the charity's logo can benefit from being seen to have purchased a good from the charity). Therefore, the criterion in paragraph IG24(a) for separately identifying a donation component of a contract would not be satisfied.~~

IG27 Income from a separately identifiable donation component of a contract with a customer is accounted for separately from any revenue recognised from the transfer of goods or services to that customer, even when the donation income and contract revenue are recognised in the same period.

IG28 Assessing whether a separately identifiable donation component of a contract with a customer is material (and therefore needs to be accounted for separately) should be made on an individual contract basis without reassessment at an aggregate or portfolio level.

IG29 When a donation component of a contract with a customer is not separately identifiable, the entire amount of consideration paid or payable by the customer under the contract is included in the transaction price allocated to the performance obligation(s) in the contract in accordance with paragraph 46.

IG30 Donations that are not a component of a contract with a customer are accounted for in accordance with [draft] AASB 10XX.

## Illustrative Examples

### Identifiable donation component

#### Example 6—Fundraising Drive: Goods

A not-for-profit entity sells chocolates made by a well-known manufacturer as a fundraising drive. The chocolates are repackaged to explicitly indicate the fundraising purpose.

The chocolates are sold by the not-for-profit entity for a greater margin than a for-profit entity would typically generate by selling chocolates. This is partly because the chocolates typically are available to buyers in a more convenient location (eg a workplace) than a retail premises. In addition, buyers of the chocolates are often motivated to do so because of the not-for-profit entity's benevolent aims. If the chocolates were ordered and paid for in advance and either the chocolates delivered were spoiled or the not-for-profit entity were unable to deliver the chocolates, the customer would be entitled to a full refund of the purchase price.

Therefore, notwithstanding the fundraising purpose of the chocolate drive, the sales to customers do not include an identifiable donation component—the transaction price is entirely attributable to the chocolates and revenue is recognised in accordance with AASB 15. [See the similar examples in the last sentence of paragraph IG25 and in paragraph IG26 of Appendix E.]

#### Example 7—Fundraising Drive: Good and Service

A golf club (not-for-profit entity) has facilities that include a restaurant and accommodation. As a fundraiser, the club sells packages that include one night's accommodation and a set-menu dinner for two for a total cash price of \$500. The club customarily sells the accommodation separately for \$220 and the dinner for two separately for \$160. The club also customarily sells the two promised items as a package for \$325. Consistent with that usual bundled price, the club advertises the value of these promises collectively as \$325, and that the amount of the donation per ticket is \$175. In the unlikely event that the club were not to provide the accommodation and dinner to ticket-holders, the \$325 paid in respect of those promises would be refunded. However, the advertised donation amount (\$175) is non-refundable.

The identifiable donation component of each package (\$175) is excluded from the transaction price allocated to the performance obligations in the contract and recognised as income, in accordance with [draft] AASB 10XX, when the consideration from the customer is received or receivable. In accordance with AASB 15, the club would measure the performance obligations arising from each package sold at \$325 and recognise a contract liability for that amount. The club would recognise revenue of \$325 allocated to the dinner and accommodation as and when that good and service are provided to the customer.

#### **Example 8—Fundraising Dinner: Ticket Amount is Fully Refundable**

A not-for-profit entity holds an annual fundraising dinner that is the most important social event in its local community. It sells tickets before the end of the reporting period, and the event is held in the following reporting period. The ticket price is \$600 per head, and is fully refundable if the dinner is cancelled. Based on the menu, the retail price of the meal and drinks that would be charged by a local restaurant would be approximately \$200 per ticket. Hosting the dinner also provides patrons (customers) with the benefit of facilitating socialising with a wide range of community members (including networking).

Customers regard the contract as including a meal, drinks, opportunity to socialise and (in view of the publicly announced fundraising nature of the event and the high price of tickets) an implicit donation component. However, that donation component is not identifiable separately from the goods and services promised in the contract, because the entity's entitlement to retain the donation is conditional on it transferring the promised goods and services to the customer (the tickets are fully refundable).

Because there is not an identifiable donation component of each ticket sold, the entire ticket price (\$600) would be allocated to the performance obligations for the fundraising dinner. In accordance with AASB 15, the entity would recognise a contract liability of \$600 for each ticket sold, and would recognise that amount as revenue when the event is held.

## **Basis for Conclusions**

### **Identifiable donation components of contracts with customers**

BC37 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 benevolent objectives. The donation represents the amount of consideration that is not attributable to the goods or services promised by the entity to its customer.

BC38 The AASB considers that, to represent faithfully the substantially different components of such a contract of a not-for-profit entity, it is important that the donation component is:

- (a) disclosed separately from the revenue from transferring a good or service to the customer; and
- (b) recognised when the entity recognises the inflow(s) of the donated asset(s)—which might be a different time from when the entity transfers the promised good or service to the customer.

However, the AASB considers that accounting separately for the donation component should only occur when that component is separately identifiable: see paragraphs BC46-BC48 for elaboration.

~~BC39 The AASB also notes that the treatment in paragraph BC38 of separately identifiable donation components of contracts with customers would, appropriately, cause such donation components to be recognised as income at the same time as that donation would be recognised if it were made to the entity in a stand-alone transaction (ie not as part of a contract with a customer).~~

BC40 Consistent with the principle in paragraph BC37, the AASB decided to include not-for-profit-entity-specific Implementation Guidance (in paragraphs IG254-IG30 of Appendix E), stating that the consideration attributable to a separately identifiable donation component is excluded from the transaction price allocated to the performance obligation(s) in the contract.

BC41 The need for this modification of AASB 15 stems from the fact that a separately identifiable donation component of a contract with a customer seldom occurs in contracts of for-profit entities. Paragraph 12 of the AASB's *Process for Modifying IFRSs for PBE/NFP* states that increased prevalence of a transaction or event for NFPs, as compared with for-profit entities, may require modifications to the relevant IFRS (as incorporated into an Australian Accounting Standard) to ensure user needs are met.

~~BC42 The AASB initially explored using a measurement-driven 'residual' approach to identify donation components of contracts with customers. Under that residual approach:~~

- ~~(a) performance obligations of a not-for-profit entity arising from a particular contract would be measured at the stand-alone selling price for the unit of account for the usual sale of the promised goods or services; and~~
- ~~(b) the residual after deducting the measure of the performance obligations in (a) above from the total contract consideration (ie transaction price) would be recognised immediately as donation income.~~

~~BC43 In outreach activities, the AASB received feedback that, under the residual approach it was considering:~~

- ~~(a) there would be a considerable risk of mistakenly identifying 'donation' components in contracts with customers because of measurement error. In various contracts with customers, a measurement difference between the promised consideration and the stand-alone selling prices of the promised goods or services might not reflect the existence of a donation component, but instead could be explained by:
  - ~~(i) information asymmetry or differences in the bargaining power of the contracting parties [this can occur in a contract with a customer of either a for-profit entity or a not-for-profit entity. However, it has no effect on the accounting by a for-profit entity for a contract with a customer. This is because AASB 15 requires a for-profit entity to measure a performance obligation in a contract with a customer at the transaction price, without the potential to identify (and separately account for) a donation component.]; or~~~~



- (ii) ~~variations in the estimated stand-alone selling prices of the promised goods or services that arise because of assumptions or adjustments made to reflect the specific circumstances of the contract with the customer. This is particularly the case because not-for-profit entities often transfer specialised services to customers, for which there is a lack of observable prices charged by other entities for comparable services; and~~
- (b) ~~the time and cost of estimating the aggregate of the stand-alone selling prices of the promised goods or services separately from the transaction price would often exceed the benefits to users. This time and cost would not arise for for-profit entities applying AASB 15, because they measure the performance obligations in a contract at the transaction price.~~

BC44 ~~In light of that feedback,~~ The AASB Exposure Draft proposed ~~decided~~ that, to identify whether a contract with a customer includes a donation component to be accounted for separately, a not-for-profit entity should first make a qualitative assessment, based on the available evidence, of whether the customer intended to provide a donation to the entity.

~~BC45 If there is no qualitative evidence to suggest an intention of the customer to make a donation, a substantial difference between the amount of promised consideration and the estimated stand-alone selling prices of the promised goods or services should cause the entity to investigate further whether those stand-alone selling prices have been estimated faithfully or whether there are any other promised goods or services in the contract that were not previously identified. For example, the entity might ultimately conclude that a stand-alone selling price estimated using an adjusted market assessment approach or an expected cost plus a margin approach (see paragraphs 79(a) and (b) of AASB 15) includes adjustments or margins that do not faithfully represent the stand-alone selling price for the good or service that is applicable for the circumstance and class of customer involved. This notion of assessing whether a measurement difference might signal the existence of a donation component is akin to the requirement in paragraph 36 of AASB 3 *Business Combinations* to reassess the identification of all acquired assets and assumed liabilities before recognising a gain on a bargain purchase.~~

### **Identifying a separate donation component**

BC46 The AASB also proposed ~~decided~~ that a donation would only be accounted for as a separate component of a contract with a customer if the donation is separately identifiable from the goods or services promised in the contract. Accordingly, the AASB ED proposes that a donation that the customer intended to make to the not-for-profit entity as a component of a contract is separately identifiable from the goods or services promised in the contract (and thus accounted for separately) if:

- (a) there is evidence that part of the consideration paid or payable by the customer is not part of the consideration to which the entity expects to be entitled in exchange for the promised good or service;

- (b) the entity's entitlement to retain the donation is not conditional on that entity transferring a good or service to the customer (donor); and
- (c) the amount of the donation component can be measured reliably.

Constituent feedback was that the imposition of a 'customer intention' test for separately identifying a donation component is not intuitive as it suggests that the not-for-profit entity 'stand in the shoes' of the customer. Those constituents expressed the view that the two-step analysis approach was over complicated and that non-refundability was the key criterion in the second step. The AASB agreed.

The AASB notes that, in cases such as those in Illustrative Example 6, a not-for-profit entity might sell goods or services as part of an explicit fundraising drive at a greater margin than a for-profit entity would generate by selling similar goods or services. Buyers of those goods or services are often motivated to do so because of the not-for-profit entity's benevolent objectives. The AASB considered that, in such cases, donation components should not be accounted for separately from the revenue from the sale of the good or service. This is because separating the selling price of the transferred good or service into:

- (a) revenue from transferring the good or service (using an estimate of the price that would be charged if the good or service were not sold as part of a fundraising drive); and
- (b) donation income (for the remainder of the actual selling price)

would not provide useful additional information to treating the actual selling price as the transaction price (that is, the amount of revenue) for the good or service transferred. In addition, estimating the price that would be charged if the good or service were not sold as part of a fundraising drive involves hypothetical assumptions and the risk of measurement error.

BC47 The AASB's objective is that a donation that a customer intended to make to the entity is only accounted for separately when doing so reflects the substance of the contractual terms, provides useful information to users of the financial statements and provides representationally faithful measures of any donation components. Accordingly, the AASB included a rebuttable presumption that in providing goods and/or services to a customer, the consideration received by the not-for-profit entity does not include a donation component, unless a part of the consideration is not refundable. An indicator that a customer intended to make a donation is that the donation is separately identified. For example, because the not-for-profit entity has the status of deductible gift recipient and the customer can claim a tax deduction for the donation.

~~proposes that a donation that the customer intended to make to the not-for-profit entity as a component of a contract is separately identifiable from the goods or services promised in the contract (and thus accounted for separately) if:~~

- ~~(a) — there is evidence that part of the consideration paid or payable by the customer is not part of the consideration to which the entity expects to be entitled in exchange for the promised good or service;~~
- ~~(b) — the entity's entitlement to retain the donation is not conditional on that entity transferring a good or service to the customer (donor); and~~
- ~~(c) — the amount of the donation component can be measured reliably.~~

BC48 The AASB expects that the rebuttable presumption criteria in paragraph BC47 would tend to limit separate identification of donation components of contracts with customers to circumstances in which both the existence and amount of the donation are readily apparent. This should reduce greatly the time and cost of accounting for donation components, compared with the time and cost that would be involved in applying the residual approach described in paragraph BC42.

### **Donation component received in same period as promised goods or services are transferred to a customer**

BC49 The AASB considered whether, for cost-benefit reasons, to exempt an entity from having to separately account for identifiable donation components of contracts with customers if the donation is received (or becomes receivable), and the promised goods or services are transferred, during the same period. The AASB noted the argument that such an exemption would limit the cost of accounting for contracts with customers without affecting the amount of income recognised by the entity during the period or the amount of the entity's liabilities recognised at the end of the period.

BC50 However, the AASB decided not to provide such an exemption because dissecting contract income between revenue from transferring goods and services to customers and donations would provide useful information about the extent to which the entity is dependent on donations to recover its expenses. Revenue from transferring goods and services to customers and donation income might differ in predictability and persistence. In addition, providing such an exemption would be unlikely to foster consistency in how donations are accounted for. This is because the exemption would affect some donation components in contracts with customers, but would not affect transactions wholly composed of donations. Thus, such an exemption would mean that how donations are accounted for would depend, in part, on whether they occur in contracts with customers or in transactions that do not give rise to performance obligations. The AASB considers that, as a general principle, the accounting for a particular economic phenomenon should not depend on how that phenomenon is bundled or unbundled.

### **Application of materiality**

BC51 The AASB decided to propose that an assessment of whether a donation component of a not-for-profit entity's contract with a customer is material should be made at a contract level, and should not need to be reassessed at another unit of account, such as for a portfolio of similar contracts. The AASB

considers that such a treatment would be likely to achieve a better balance of costs and benefits than if the materiality of donation components of a not-for-profit entity's contracts with customers were to be assessed at a portfolio level for similar contracts (see paragraph IG28 of Appendix E).

BC52 For similar reasons, the AASB considers that, for any transaction wholly composed of a donation in the form of non-cash consideration, an assessment of whether the donation is material should be made at a transaction level, and should not need to be reassessed at another unit of account, such as for a portfolio of similar transactions. For example, if a charity receives multiple donations of used clothing, it would be unlikely that any donation would be individually material. Collectively, all of the donations of clothing might be material. However, measuring the fair value of such donated assets would be difficult and burdensome (as compared with donations in the form of cash consideration), and the resulting costs would be unlikely to be exceeded by the benefits to users of financial statements (ie the revenue from such donations would be recognised when the items of clothing are sold, except if the entity were to elect to recognise the donated clothing upon receipt). Therefore, the materiality of the donations of clothing should not be required to be reassessed at a 'portfolio' level.

### ***Treatment of contributions by owners and issues related to contributions by owners***

#### **Basis for Conclusions**

#### **Status of requirements in AASB 1004 other than those dealing with income recognition**

#### **Contributions by owners**

BC84 Consistent with the definition of income in the AASB Conceptual Framework, [draft] AASB 10XX (Part B of the ED) states that income excludes inflows of economic benefits that are contributions by owners acting in their capacity as owners (termed 'contributions by owners' in Australian Accounting Standards).

BC85 The AASB ~~sought~~<sup>is seeking</sup> views on whether a definition of 'contributions by owners', which applies only to not-for-profit entities under AASB 1004, is still necessary or appropriate in Australian Accounting Standards. The proposed replacement Standard for AASB 1004 (ie [draft] AASB 10XX) included in the omnibus Exposure Draft ~~excludes~~ the definition and discussion of 'contributions by owners' presently contained in AASB 1004 and the IPSASB's Public Sector Conceptual Framework.

#### **Feedback received on contributions by owners and related issues**

The majority of constituents' comments noted the definition in AASB 1004 can be problematic, identified a need for a definition of contributions by owners and expressed their support for applying the IPSASB definition or using the IPSASB definition as the basis for an Australian definition. Some constituents supported the AASB taking on a separate project to address current application issues to which the AASB agreed.

Background to this issue is provided below.

BC86—Consistent with the definition of income in the Conceptual Frameworks of both the AASB and IASB, the [draft] replacement Standard for AASB 1004 states that income excludes increases in economic benefits relating to contributions from equity participants (termed ‘contributions by owners’ in Australian Accounting Standards). However, unlike Australian Accounting Standards, there is no definition of ‘contributions by owners’ or equivalent term in International Financial Reporting Standards (IFRSs).

BC87—AASB 1004 defines ‘contributions by owners’ as:

“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.”

BC88—The AASB has received comments that some transfers of assets to not-for-profit entities that, in substance, are equity contributions fail to meet the definition of ‘contributions by owners’ in AASB 1004 and therefore are required to be included in comprehensive income. For example, some have commented that, in practice, in substance equity contributions are being classified as income when the entity does not issue equity instruments in return. Others have commented that, in some circumstances, the definition effectively (and inappropriately) adopts the viewpoint of the contributor rather than the entity. For example, if a not-for-profit entity receives a non-reciprocal transfer of an asset and the contributor neither received an equity instrument in return nor entered a formal agreement establishing the equity nature of the transfer, classification of the transfer as either a contribution by owners or income would depend on whether the contributor designated the transfer as a contribution by owners. In that circumstance, although the transfer might be an equity contribution from the entity’s viewpoint, its classification would depend on whether the contributor has designated the transfer as a contribution by owners.

BC89—In view of these concerns and the absence of a definition of ‘contributions from owners’ in IFRSs, the AASB is reviewing, as part of this Exposure Draft, whether ‘contributions from owners’ should continue to be defined in Australian Accounting Standards and, if so, whether the existing definition should be retained or modified. The AASB observes that, in October 2014, the IPSASB issued its Public Sector Conceptual Framework, which includes a less restrictive definition of ‘ownership contributions’ than that in AASB 1004. The IPSASB defines ‘ownership contributions’ as:

~~“Inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity”.~~

~~BC90 If adopted in Australian Accounting Standards, the IPSASB definition may overcome the concern that in substance equity contributions are being classified, inappropriately, as income. However, an issue would remain of why Australian Accounting Standards should include a definition of ‘ownership contributions’ for not-for-profit entities when none applies to Australian for-profit entities.~~

~~BC91 The AASB also notes that the implications of removing the definition of ‘contributions from owners’ presently in AASB 1004 include:~~

~~(a) fewer transfers to not-for-profit entities by their owners would be classified as revenue, or other income, instead of as equity contributions. Classification of a transfer from owners as revenue or other income would only occur when the transfer:~~

~~(i) is on consistent terms and conditions as transfers from non-owner sources;~~

~~(ii) occurs in connection with contracts for the transfer of goods or services to customers; or~~

~~(iii) is provided to finance the entity’s operating activities for the current period [eg an appropriation to a government department that finances the department’s operating activities would be treated as income; a capital appropriation (which enhances the department’s capacity to transfer services) would be treated as a contribution by owners]; and~~

~~(b) there might not be a need to carry forward the guidance on restructures of administrative arrangements presently set out in paragraphs 54–59 of AASB 1004. This is because it would be clear, in the absence of the definition of ‘contributions from owners’, that such restructures are equity transfers. Removing the guidance on restructures of administrative arrangements:~~

~~(i) would be consistent with the exclusion of combinations of entities or businesses under common control from the scope of AASB 3 Business Combinations; and~~

~~(ii) would not result in a reduction in guidance on how assets and liabilities transferred between entities as part of a restructure of administrative arrangements should be measured. It is implicit in AASB 1004 that those assets and liabilities do not need to be remeasured as at the date of the restructure.~~

### ~~AASB Interpretation 1038~~

~~BC92 The definition of ‘contributions by owners’ is also used in AASB Interpretation 1038 Contributions by Owners Made to Wholly Owned Public Sector Entities, which applies to public sector entities (whether for-profit or not-for-profit) and provides criteria for determining whether a transfer is a ‘contribution by~~

owners'. The AASB has received feedback that a for-profit entity in the public sector that applies AASB Interpretation 1038 may be unable to make an unreserved statement of compliance with IFRSs, which would be an outcome that conflicts with the AASB's policy of transaction neutrality. For example, under that Interpretation, depending on the relevant facts and circumstances, to treat a transfer to a public sector entity as a contribution by owners, it may be necessary for the transferor to formally designate the transfer as forming part of contributed equity before or at the time of the transfer; however, such a criterion does not exist in IFRSs.

BC93 If the AASB were to remove the definition of 'contributions by owners' from Australian Accounting Standards, it would seem logical to also withdraw AASB Interpretation 1038. In addition, the development of AASB Interpretation 1038 responded to difficulties and uncertainty in applying the definition of 'contributions by owners' in AASB 1004. Since AASB Interpretation 1038 was initially developed (in 2000), a better understanding of equity as a residual has developed in the public sector—therefore, guidance on contribution by owners in the public sector may no longer be necessary.

BC94 However, AASB Interpretation 1038 also includes guidance that when transfers are made between public sector entities controlled by the same parent (government), the parent should be treated as a party to the transfer (by treating the parent as an interposed entity).

#### **Distributions to owners**

BC95 Paragraph 49 of AASB 1004 states that:

“Distributions to owners shall be recognised as a direct adjustment to equity when the associated reduction in assets, rendering of services or increase in liabilities qualifies for recognition.”

BC96 Paragraph 53 of AASB 1004 elaborates briefly on that requirement, and notes that distributions to owners can either be dividends or returns of capital. AASB 1004 does not define 'distributions to owners'.

BC97 The AASB considers that, if the guidance on contributions by owners in AASB 1004 were to be omitted from Australian Accounting Standards, it would be logical to also omit the guidance on distributions to owners. The AASB observes that AASB 1004 does not provide significant guidance on distributions to owners that is additional to the principle in paragraph 70(b) of the AASB Framework for the Preparation and Presentation of Financial Statements that expenses exclude distributions to equity participants.

#### **Liabilities of government departments assumed by other entities**

BC98 Paragraphs 39–43 of AASB 1004 specify how a government department accounts for the incurrence and assumption of liabilities that are assumed by another entity. A key aspect of those requirements is that the treatment of such an assumption depends on whether the assumption is a contribution by an owner.

~~BC99 The AASB considers that, if the guidance on contributions by owners in AASB 1004 were to be omitted from Australian Accounting Standards, it would be logical to also omit the requirements in paragraph 39-43 of AASB 1004 on liabilities that are assumed by another entity.~~



## Appendix B: Summary of Board tentative decisions

- 1 At the October 2015 meeting, the Board commenced its redeliberations based on feedback received from constituents on ED 260 *Income of Not-for-Profit Entities* during the comment period. At that meeting and subsequent meetings, the Board tentative decisions include:
  - (a) reconfirming its decision to exclude not-for-profit (NFP) entities from AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*;
  - (b) enforceable contracts involving transfers of goods and services are in the scope of AASB 15 *Revenue from Contracts with Customers*;
  - (c) that arrangements between sovereign States or between an asset provider and recipient, requiring mutual agreement on how funds/assets can be used, are enforceable by an administrative process and therefore in the scope of AASB 15;
  - (d) that the ‘sufficiently specific’ principle in ED 260 *Income of Not for Profit Entities* be retained to determine when a performance obligation that would permit deferral of revenue recognition exists. The key element is being able to determine whether or not a performance obligation has been satisfied;
  - (e) retaining the notion that a transferor’s stipulation to use the transferred funds over a particular time period, without any other conditions, does not meet the ‘sufficiently specific’ criterion as time is not a good or service;
  - (f) that a transfer to a not-for-profit entity that has a single purpose charter, with conditions that enable the determination of when the service has been met would meet the ‘sufficiently specific’ criterion. The key element is being able to determine whether or not a performance obligation has been satisfied; and
  - (g) constructive obligations, arising from non-enforceable agreements outside the scope of AASB 15, should only be recognised when there is no realistic alternative to settling and there is a sufficiently specific promise, consistent with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

**Appendix C: Draft project plan and next steps**

Next Steps

- 1 Continue redeliberations to issue final Standard AASB 10XX and AASB 15 Implementation Guidance in Q1 2017.
- 2 At the June Board meeting, it is expected that the Board will redeliberate:
  - (a) whether the recipient of a donation that creates a perpetual endowment could ever fulfil any attached performance obligations because of the requirement for the resource to be maintained in perpetuity; and
  - (b) illustrative examples.

Board meeting	Board actions
19 – 20 April 2016	Board to redeliberate the proposed: <ul style="list-style-type: none"> <li>(a) control of bequests;</li> <li>(b) two-step analysis to determining a separately identifiable donation component in a contract with a customer; and</li> <li>(c) treatment of contributions by owners and issues related to contributions by owners.</li> </ul>
18 May 2016 Project Advisory Panel meeting	
21 – 22 June 2016	Board to redeliberate: <ul style="list-style-type: none"> <li>(a) perpetual endowments and performance obligations; and</li> <li>(b) illustrative examples.</li> </ul>
27 July 2016 Project Advisory Panel meeting	
30 – 31 August 2016	Bo Board to redeliberate the proposed: <ul style="list-style-type: none"> <li>(a) illustrative examples;</li> <li>(b) transitional provisions; and</li> <li>(c) application date.</li> </ul>
21 September 2016 Project Advisory Panel meeting	
18 – 19 October 2016	Board to consider any sweep issues.
16 November 2016 Project Advisory Panel meeting	
13 December 2016	Board to review pre-ballot draft Standard.
December/January 2016 (out-of-session)	Board to vote on Ballot Standard.

