



Australian Government

Australian Accounting Standards Board

Income of not-for-profit entities

Getting to know AASB 1058

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Your presenters



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- ▶ **Welcome**
- ▶ **Project update**
- ▶ **Revenue recognition guidance**
- ▶ **Recognising income**
- ▶ **Transition**
- ▶ **Wrap-up**

AGENDA

Project update

Income of not-for-profit entities

Project Status

- ▶ Standards issued in December 2016
 - ▶ AASB 1058 – the main Standard
 - ▶ AASB 2016-7 – defers AASB 15 for NFPs
 - ▶ AASB 2016-8 – adds NFP guidance to AASB 9 and AASB 15
- ▶ Effective date – 1 January 2019
(Significant transitional relief available)
- ▶ April 2015 – AASB ED 260
- ▶ June 2009 – AASB ED 180 / FRSB ED 118

Income of not-for-profit entities

What we heard about AASB 1004

Reasons for reconsidering income recognition

Income recognition is premature

How does AASB 1004 interact with AASB 15?






Does not reflect the substance of the transaction

What's the accounting for leases on below-market terms?

It's difficult to apply the reciprocal/non-reciprocal distinction in practice

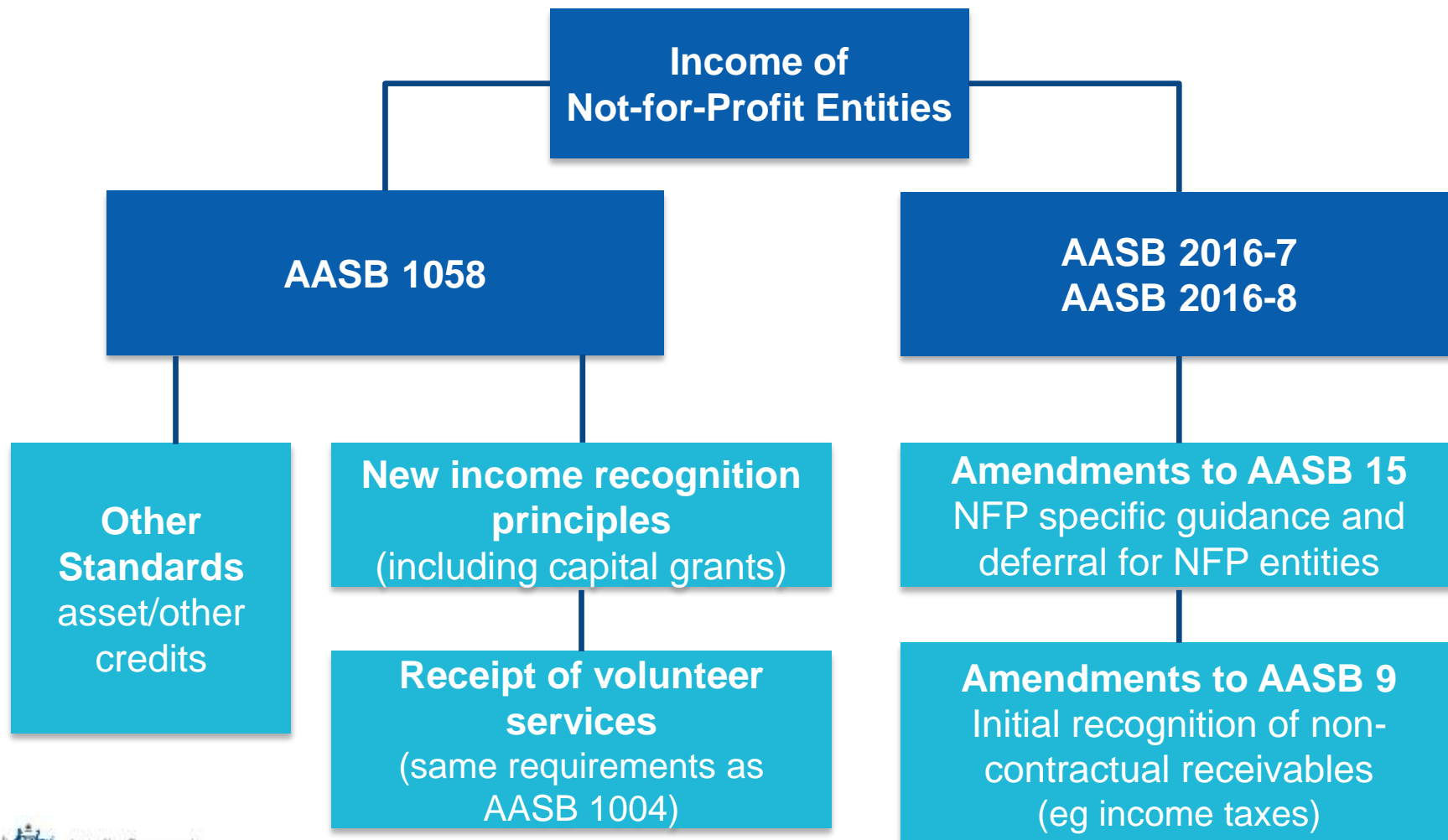
Income of not-for-profit entities

Key messages

-  More deferral of income (however, time-based obligation not sufficient)
-  Income recognition reflects performance obligations
-  Clear guidance on recognition of asset
-  Clear guidance on significantly below-market leases (initial)
-  NFP guidance for contracts with customers

Income of not-for-profit entities

AASB 1058, AASB 2016-7 and AASB 2016-8



Revenue recognition guidance

(AASB 15, Appendix F)

Income of not-for-profit entities

Identify the contract(s) with the customer

Identify the separate performance obligations

Determine the transaction price

Allocate the transaction price

Recognise revenue when a performance obligation is satisfied

Customer

- Party that promises consideration in exchange for a transfer of goods / services (even if third-party beneficiaries)

Enforceable agreement

- Enforceable agreement – legal or equivalent means as long as some enforceable obligations arise for entity from agreement
 - expectation of enforceability (written and acted upon)

Income of not-for-profit entities

Identify the contract(s) with the customer

Identify the separate performance obligations

Determine the transaction price

Allocate the transaction price

Recognise revenue when a performance obligation is satisfied

Identifying a performance obligation

- Specificity of promise can be different in for-profit and NFP sectors

Performance obligation

- Promise that creates performance obligation is **sufficiently specific** to determine when obligation is satisfied
 - time basis not enough

Following aspects need to be considered

- The nature or type of the goods or services
- The cost or value of the goods or services
- The quantity of the goods or services
- The period over which goods or services must be transferred

Example 3 to AASB 1058

- ▶ Alumnus transfers \$2 million cash to University A as endowment.
- ▶ University A can invest \$2 million at their discretion.
- ▶ University A must return real value of principal if terms are breached.
- ▶ Investment income must be applied to scholarships for students.



Does the transaction give rise to an enforceable agreement?

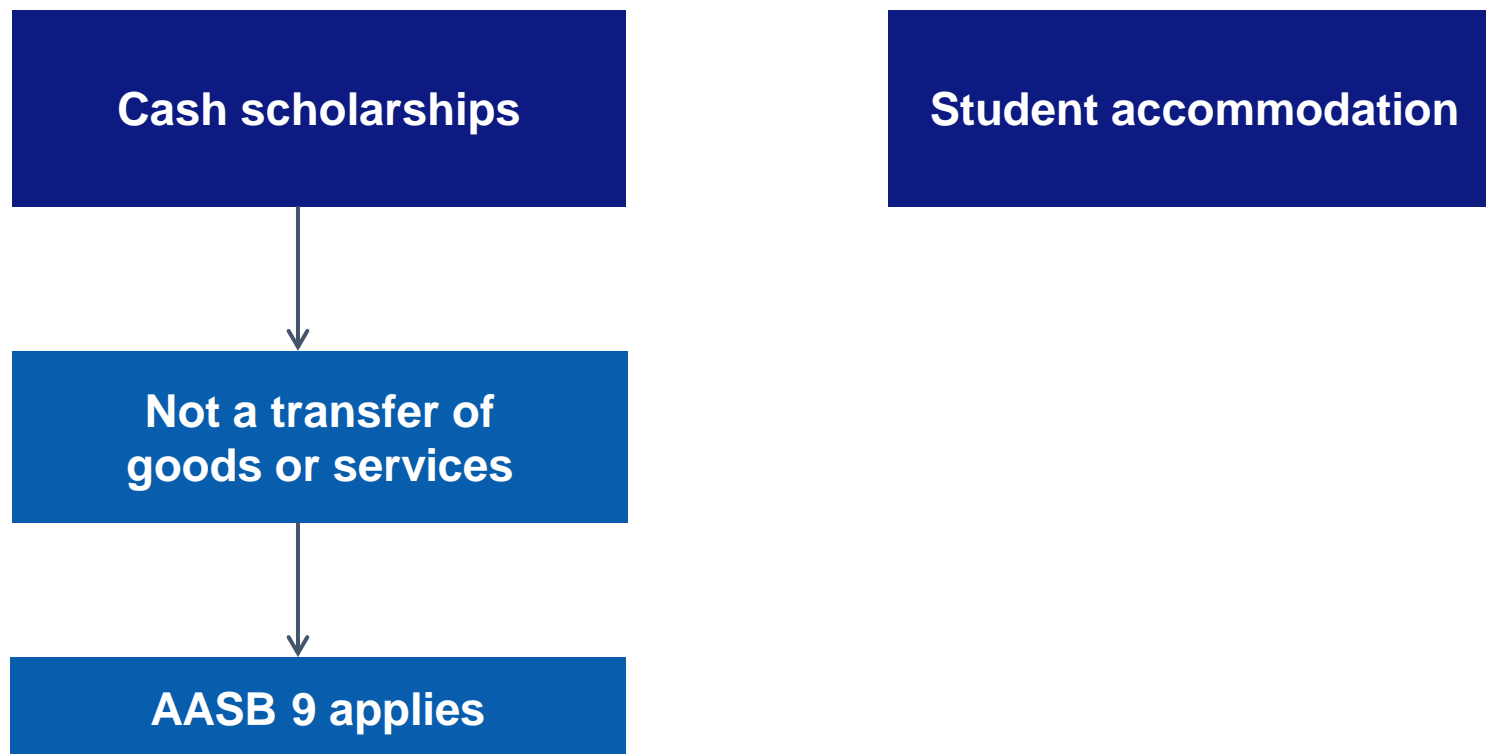
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Enforceable agreement?

University A has an enforceable agreement with the alumnus as:

- ▶ the amount is required to be returned to the alumnus if terms are not met
- ▶ breach of the requirements is enforceable by law or equivalent means

Transfer of goods or services to customers?



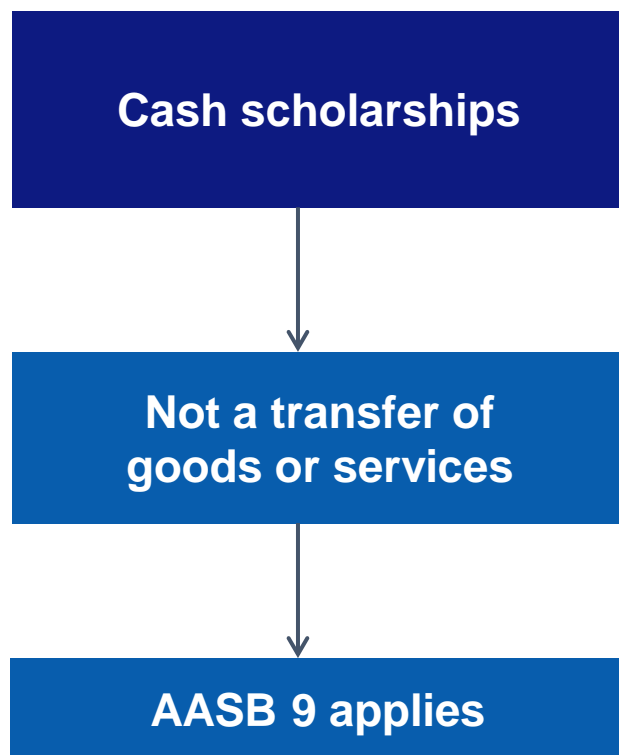
Example 3A



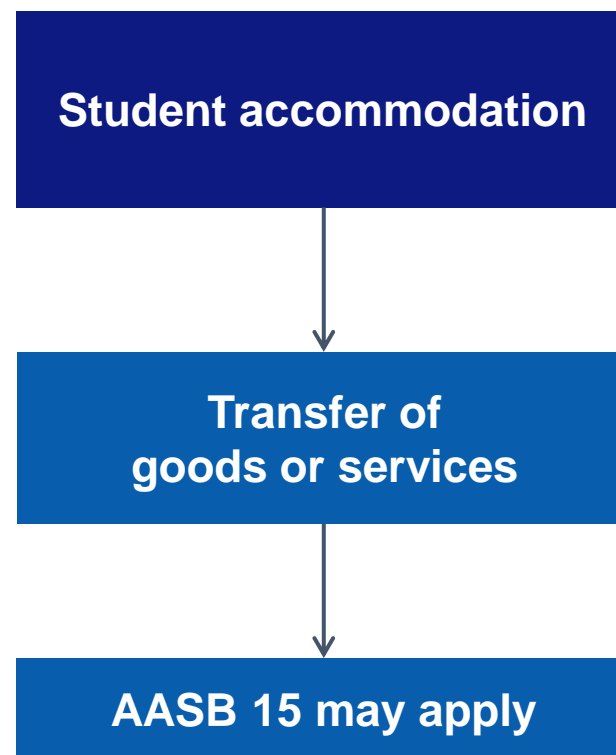
Does providing student accommodation constitute a transfer of goods or services?

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Transfer of goods or services to customers?



Example 3A



Example 3B, 3C

Sufficiently Specific Performance Obligations?

Example 3C --

University A is required to provide 1 student accommodation per year for a defined period of 30 years



Is the above a sufficiently specific promise?

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Sufficiently Specific Performance Obligations?

Example 3C --

University A is required to provide 1 student accommodation per year for a defined period of 30 years

- distinct performance obligation
- able to determine when the obligation will be met

✓ Sufficiently specific performance obligation
- AASB 15 applies

Sufficiently Specific Performance Obligations?

Example 3B --

University A is required to provide 1 student accommodation per year for as long as the University operates



Is the above a sufficiently specific promise?

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Sufficiently Specific Performance Obligations?

Example 3B --

University A is required to provide 1 student accommodation per year for as long as the University operates

- not able to determine when obligation is fully satisfied as it is ongoing.
- cannot allocate transaction price as the promise is continuous.

**✘ Not sufficiently specific performance obligations
– AASB 15 does not apply**

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Identify the contract(s) with the customer

Identify the separate performance obligations

Determine the transaction price

Allocate the transaction price

Recognise revenue when a performance obligation is satisfied

Presumption

- the transaction price relates wholly to the transfer of promised goods or services to the customer

Rebuttal

- the transaction price is partially refundable if promised goods or services not delivered

Partially refundable



Disaggregate and account separately

Fully refundable



Apply AASB 15 to the whole transaction price

Fully non-refundable



Consider if enforceable or AASB 1058?

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Using disclosure as a communication tool (Example 7B, 13)

- ▶ Income recognised “upfront” in accordance with AASB 1058
- ▶ AASB 1058 encourages disclosure to manage f/s user expectations

Restrictions (encouraged)

Information about externally imposed restrictions that limit or direct the purpose for which a resource may be used

Statement of Profit and Loss and Other Comprehensive Income (summary)

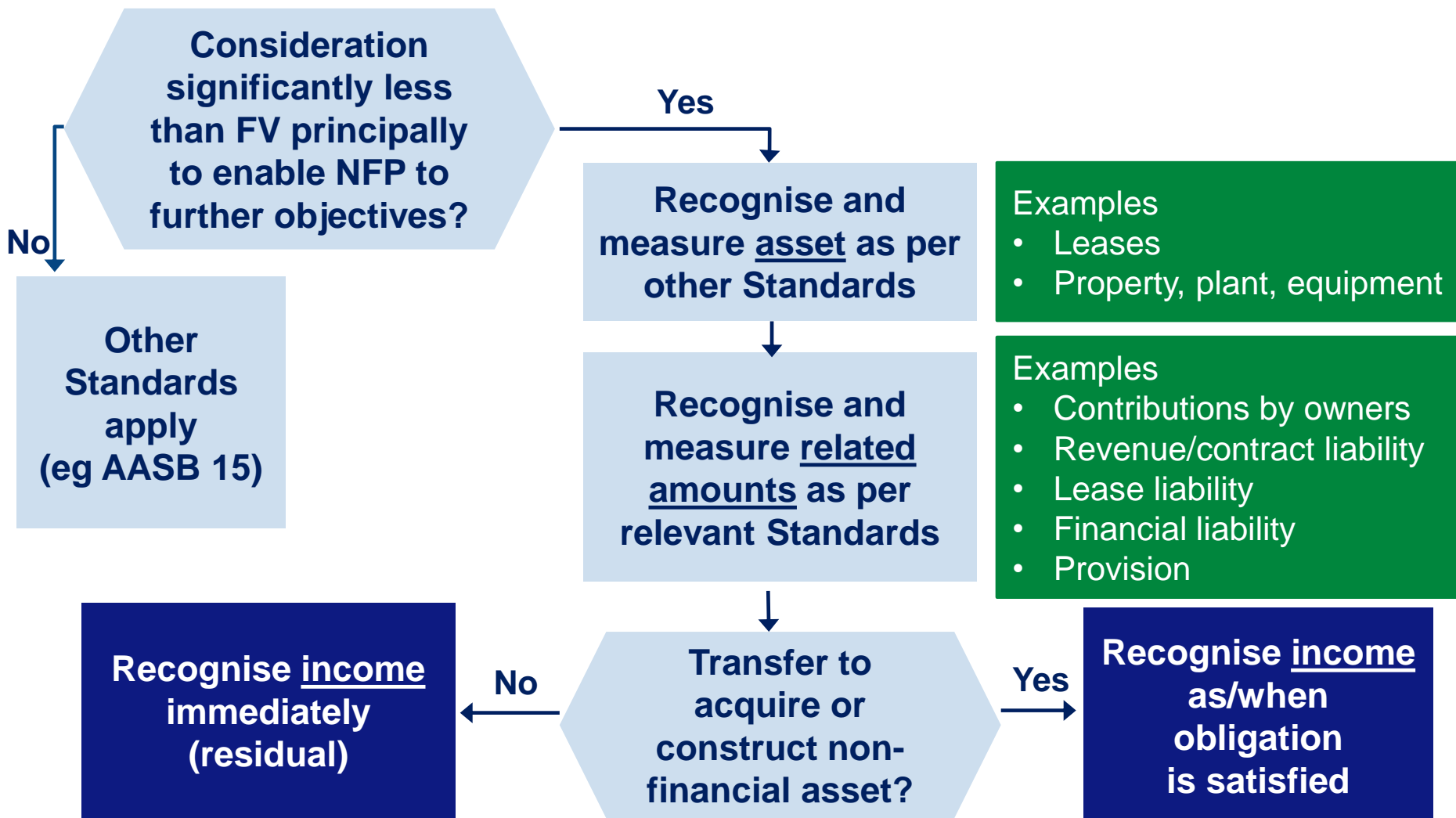
Donation income – restricted	\$160,000
Donation income – unrestricted	\$230,000
Other revenue	\$10,000
Total revenue	\$400,000
Total expense	\$220,000
Total comprehensive income	\$180,000
Total comprehensive income – restricted	\$160,000
Total comprehensive income - unrestricted	\$20,000

Recognising income

(AASB 1058)

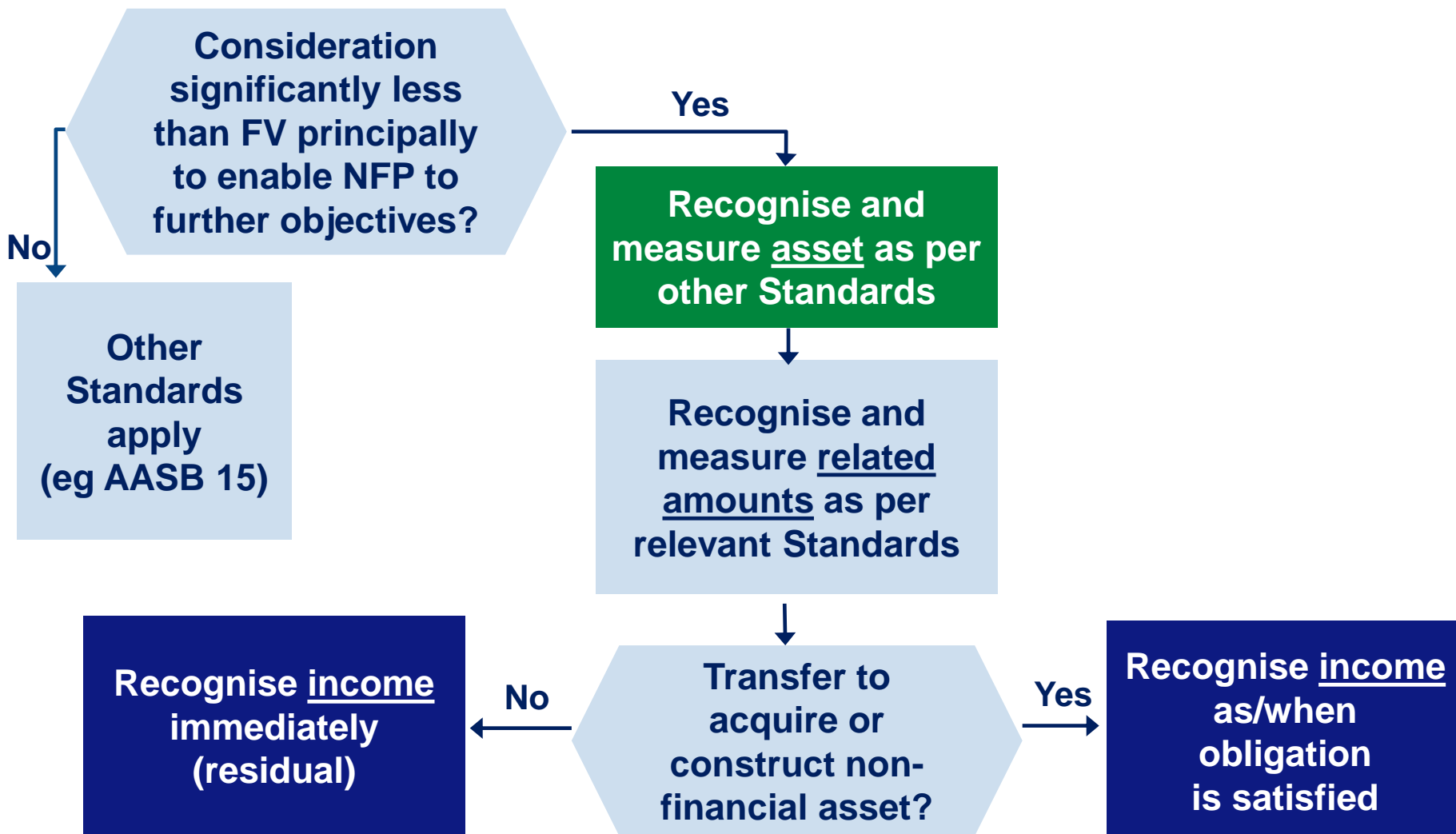
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Transactions other than volunteer services



Income of not-for-profit entities

Transactions other than volunteer services



Income of not-for-profit entities

Why fair value assets?

- ▶ Transparency, accountability, stewardship
- ▶ No formal valuation required

When fair value assets?

- ▶ Initial recognition only (does not require recurring valuation)
- ▶ More than just assets acquired for no or nominal consideration
- ▶ Includes assets below market value, donated inventory
- ▶ Excludes distress sales, bulk/ trade discounts

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Refresher: AASB 16 model for lessees

Lessee

Single Model

B/S & P&L

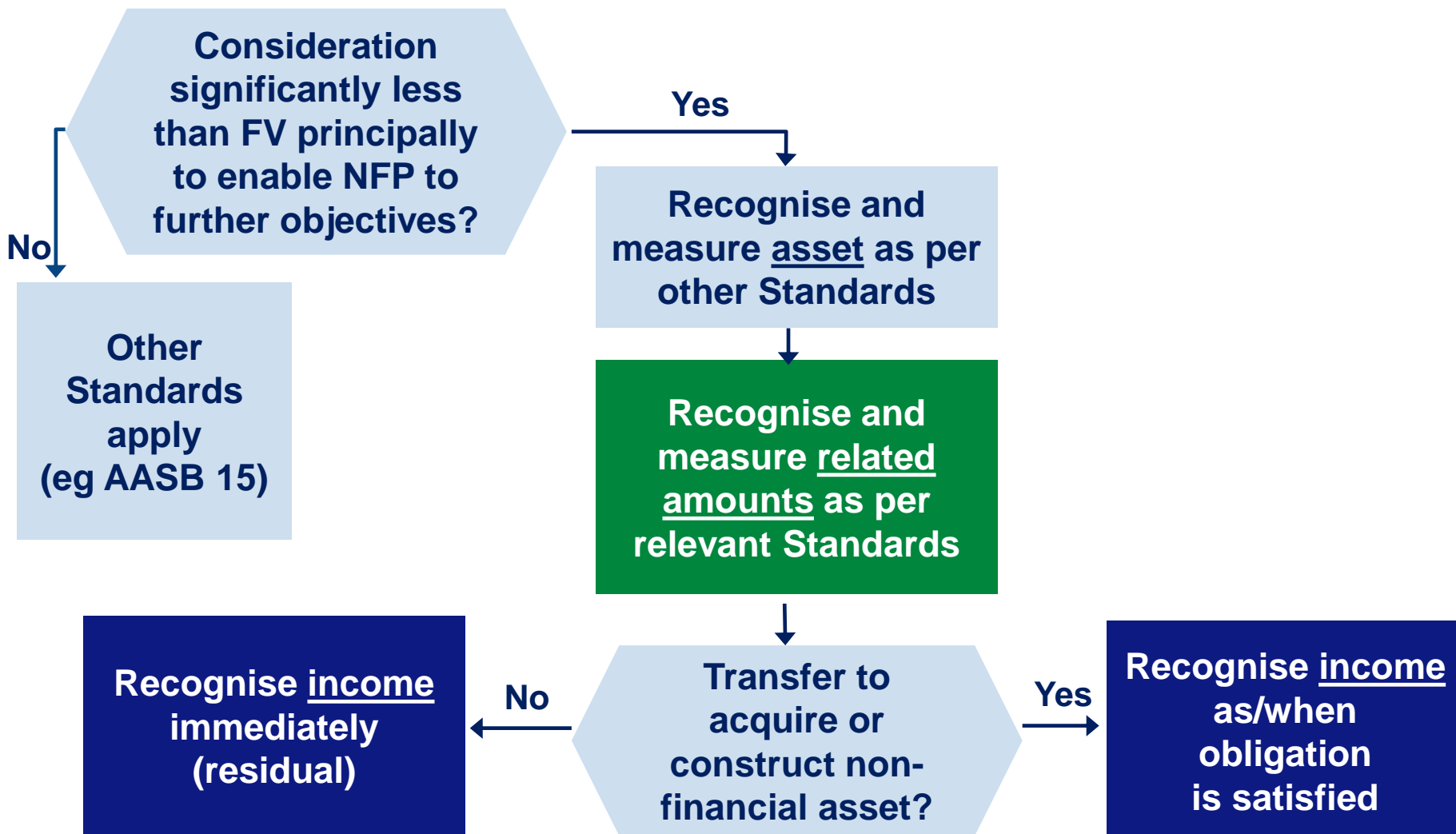
- effective 1 Jan 2019
- supersedes AASB 117
- changes lessee accounting
- on initial recognition, lease asset = lease liability

Leases on significantly below market terms and conditions

- ▶ NFP modifications to AASB 16
- ▶ Lease asset (right-to-use) measured at fair value
- ▶ Lease asset \neq lease liability
- ▶ Difference recognised in accordance with AASB 1058

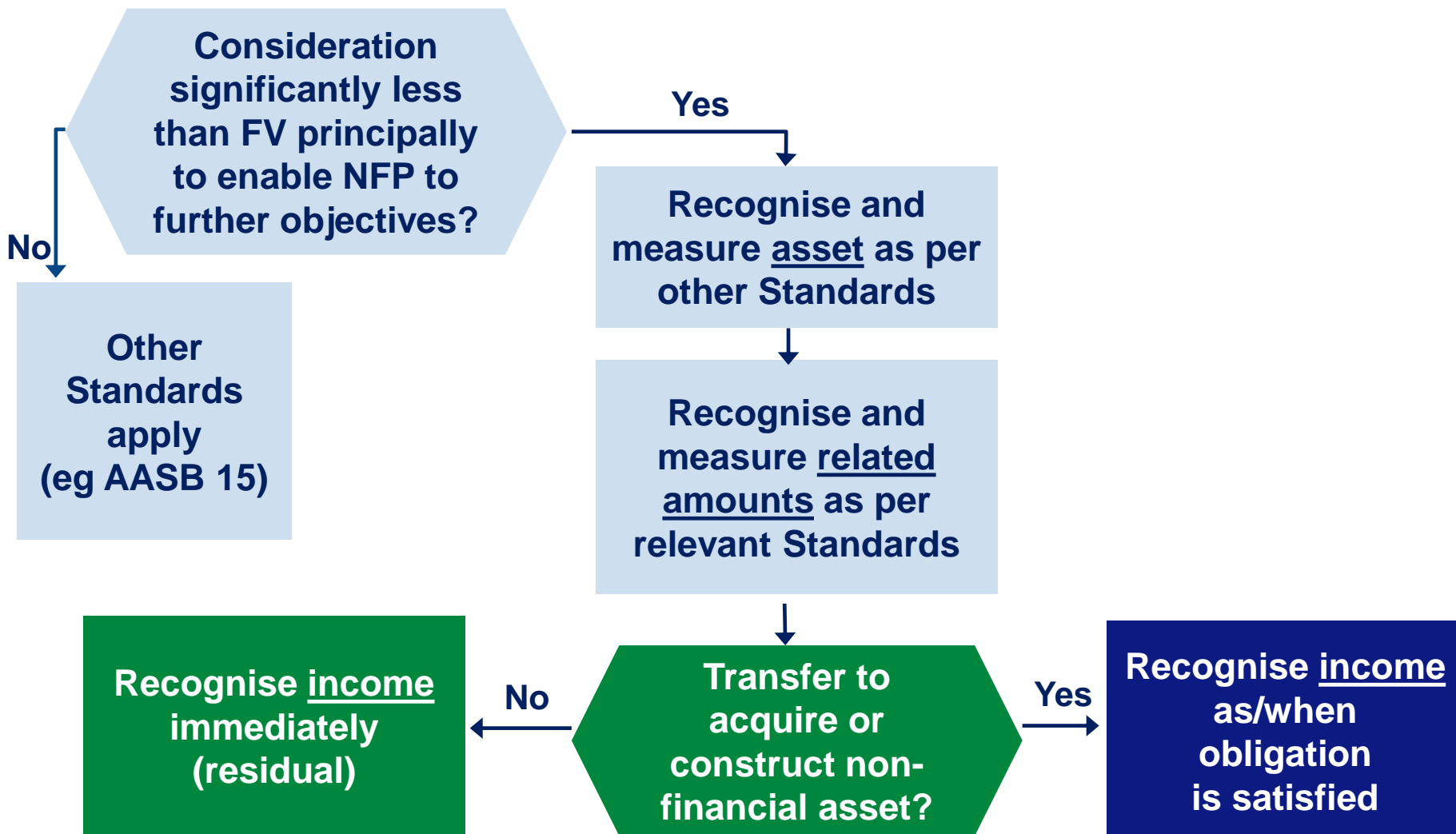
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Transactions other than volunteer services



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Transactions other than volunteer services



Income of not-for-profit entities

$$\text{Income} = \text{FV asset} - \text{Consideration Paid} - \text{Related Amounts recognised}$$

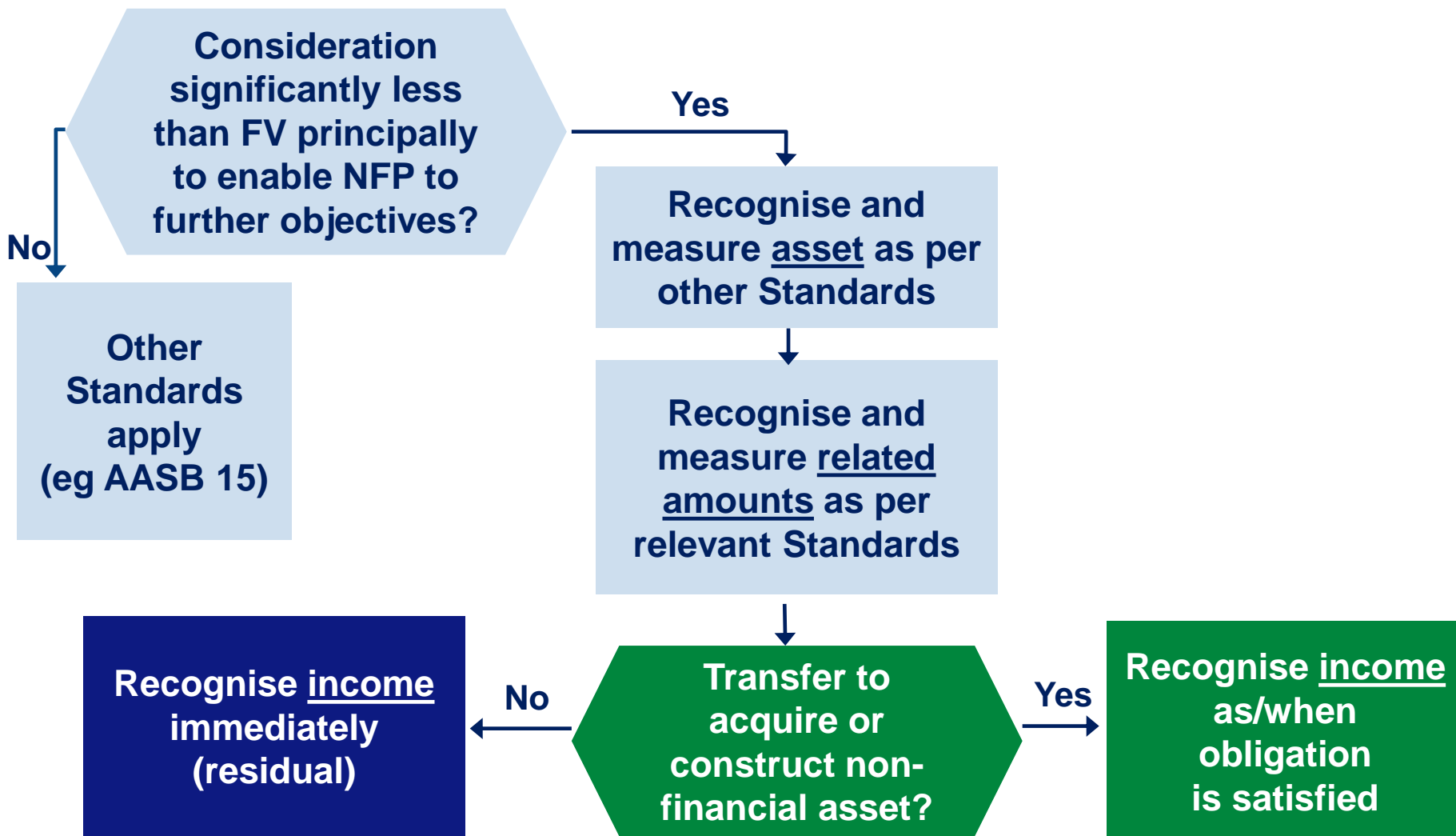
Example 5 of AASB 1058

Leases on significantly below market terms and conditions

- ▶ Charity A (lessee) enters into 30 year lease with local government (lessor) for significantly below-market lease payments
- ▶ On lease inception, Charity A recognises:
 - Right-of-use asset at fair value (\$360,000)
 - Lease liability at present value of lease payments (\$1,537)
 - Difference is **recognised as income** under AASB 1058 (\$358,463)

Income of not-for-profit entities

Transactions other than volunteer services



Income of not-for-profit entities

Characteristics



- ▶ to acquire or construct a recognisable non-financial asset
- ▶ no transfer of financial asset to transferor (or other parties); and
- ▶ enforceable agreement

Recognition



- ▶ liability for the excess of initial carrying amount of financial asset over related amounts
- ▶ income in P&L when or as entity satisfies its obligations

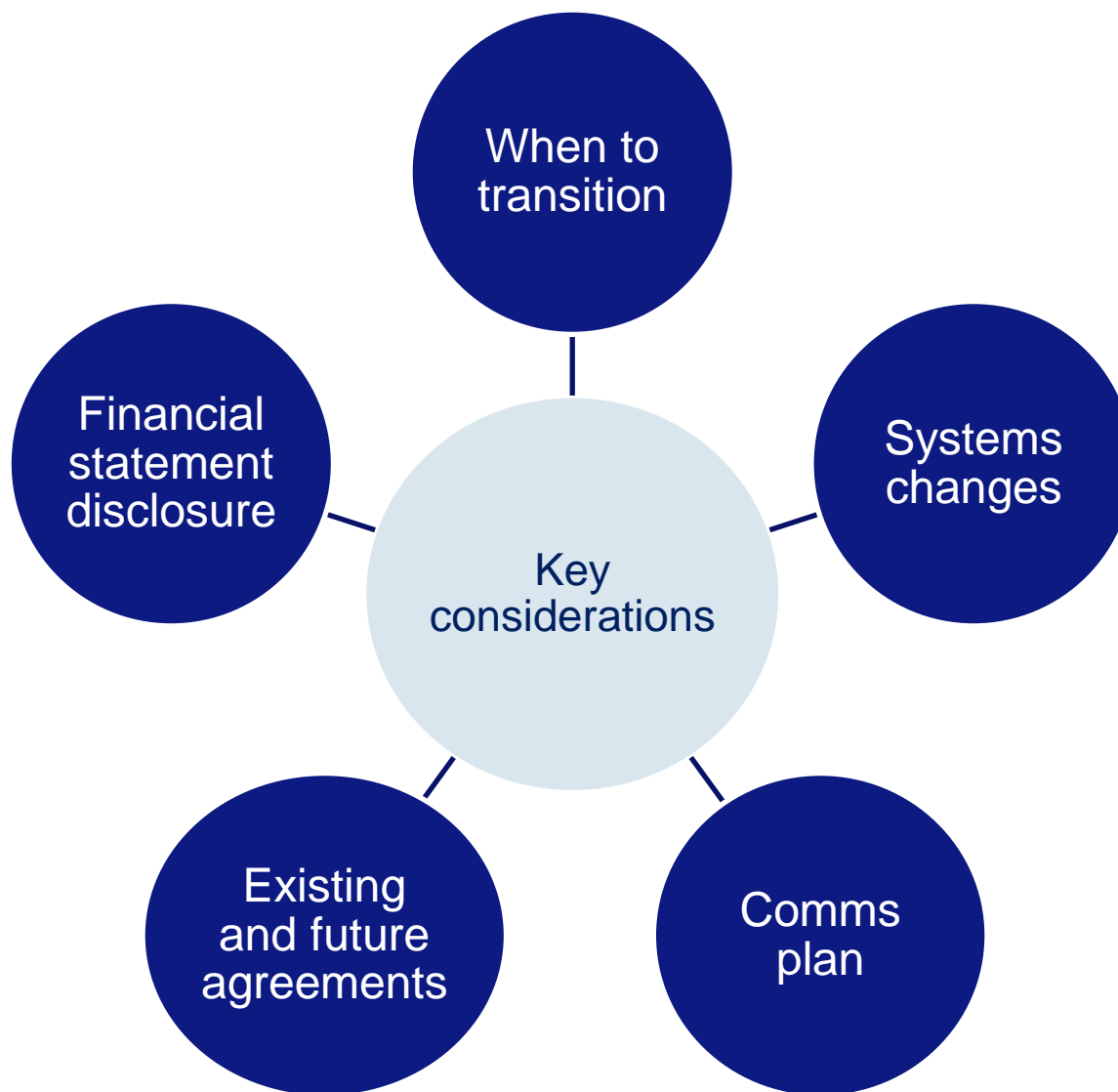
Transition

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Significant transition relief

- ▶ Assess fair value of significantly below-market leases at date of transition to AASB 1058
(further relief available if AASB 1058 adopted early)
- ▶ Income recognised under AASB 1004 is not affected
- ▶ Assets acquired for more than no or nominal consideration but significantly less than fair value – accounting grandfathered
- ▶ Full or modified retrospective application
 - ▶ Restatement of comparatives may not be required

Income of not-for-profit entities



Thank you

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