

**Issues Paper: Review of AASB’s Tentative Decisions regarding
Not-for-Profit modifications of IFRS 15 *Revenue from Contracts with
Customers* that would be included in the AASB ED on Income from
Transactions of Not-for-Profit Entities**

Introduction

- 1 Agenda paper 19.2 sets out an inventory of the AASB’s tentative decisions to date on the proposed not-for-profit (NFP) modifications of IFRS 15 *Revenue from Contracts with Customers* (issued in May 2014) to include in its ED on Income from Transactions of Not-for-Profit Entities, including the reasons for those proposed modifications. Those tentative decisions of the AASB were based on the IASB’s re-exposure draft ED/2011/6 *Revenue from Contracts with Customers* (issued in November 2011), on the working assumption that IFRS 15 would reflect that ED’s proposals.
- 2 Many of the tentatively decided proposed NFP modifications of IFRS 15 reflect the broader intended scope of that ED, namely, to also include recognition, measurement and disclosure requirements for income from transactions outside contracts with customers upon withdrawing most of the income recognition requirements of AASB 1004 *Contributions*. Similarly to the NFP modifications of IFRS 10 *Consolidated Financial Statements* included in AASB 10 (of the same title) in October 2013, many of the NFP modifications would be presented as Australian Implementation Guidance in an Appendix that is an integral part of the [draft] Standard. However, there would also be some NFP-specific text in the body of the [draft] Standard.
- 3 The purpose of this agenda item is to consider whether to confirm those draft NFP modifications. The staff plan to speak to the key issues in this issues paper, and then to ask Board members which other draft NFP modifications listed in Agenda Paper 19.2 they wish to discuss. An extract from the working draft of the ED (which is a work-in-progress) showing draft NFP modifications of IFRS 15 is set out in confidential Agenda Paper 19.4. That extract is provided to elaborate on, and illustrate, the tentatively decided NFP modifications. The purpose of the agenda item does not include a review of the drafting in that extract.

Key Issues

‘No need to identify a customer’

- 4 Paragraph 6 of IFRS 15 states that:

“An entity shall apply this Standard to a contract ... only if the counterparty to the contract is a customer.”
- 5 The AASB tentatively decided that, in a NFP context:
 - (a) it can be difficult to identify which party is the customer in relation to a particular performance obligation, even though the performance obligation itself might be clearly identifiable. An example of this is where more than one

level of government jointly provides funding to a particular entity with stipulations for the rendering of services to beneficiaries; and

- (b) it is unnecessary to identify the customer in order to account for the performance obligation.

6 Consequently, Appendix E of the draft ED (see Agenda Paper 19.4) includes NFP implementation guidance that:

- (a) references to customer in the [draft] Standard shall be read by NFPs as references to another party to the transaction (paragraph IG34); and
- (b) a NFP may owe a performance obligation to a party other than the counterparty to the transaction that gave rise to the obligation (paragraph IG35).

7 However, to qualify as a customer under IFRS 15, a party need not be the beneficiary of the entity's performance of its promises to provide goods or services. The beneficiary need not be individually identifiable in order for a performance obligation to exist. Under IFRS 15, contracts with customers can involve more than two parties, e.g. a customer, a provider of goods or services (the reporting entity) and a beneficiary (or beneficiaries). The contract that creates enforceable rights and obligations is between the reporting entity and its customer. Under IFRS 15, a customer will need to be identified because it is the party that promises to pay consideration in exchange for goods and services. Although it is common in the for-profit sector for a customer to also be the beneficiary, there will be many cases in that sector where the customer might not be perceived to be the beneficiary. The example in paragraph 5(a) above (i.e. an arrangement where more than one level of government jointly provides funding to a particular entity with stipulations for the rendering of services to beneficiaries) has parallels in the for-profit sector, albeit that joint funding may occur for a single customer in that sector. For example, a patient's treatment at a for-profit hospital can be paid for jointly by the patient and their health fund.

8 For the reasons in paragraph 7 above, the 'NFP issues' referred to in paragraph 5 above are not unique to the NFP sector. Nevertheless, the *Process for Modifying IFRSs for PBE/NFP*¹ issued by the AASB and the NZASB's predecessor (the Financial Reporting Standards Board) in October 2009 states (in paragraph 12) that one of the factors for considering whether an IFRS should be modified for application by NFP entities is a circumstance more prevalent among NFPs than among for-profit entities. AASB staff note the concerns that difficulties in identifying which party is the customer are more likely to arise in the NFP sector. On balance, though, AASB staff think there is not a compelling case to include the NFP implementation guidance referred to in paragraph 6 above. Instead, staff think it would be more appropriate to ask, in the Invitation to Comment section of the ED, whether commentators have any issues regarding the guidance on 'customers' in IFRS 15.

¹ http://www.aasb.gov.au/admin/file/content102/c3/Final_Process_for_modifying_IFRSs_Oct_2009.pdf

Question for Board members

Q1 Do you agree with the AASB staff view that the draft NFP implementation guidance referred to in paragraph 6 above (particularly the guidance that references to ‘customer’ in the [draft] Standard shall be read by NFPs as references to another party to the transaction) should not be included in the ED on Income from Transactions of NFP Entities? That is, do you agree to vary the previous Board decision on this issue?

Enforceable arrangement

NFP guidance on enforceability

- 9 IFRS 15, paragraph 10, states that “A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law.” The AASB tentatively decided to describe enforceability using the phrase “legal or equivalent means” (see the stem of paragraph IG38 in Agenda Paper 19.4). The AASB considered that a wider range of potential mechanisms may be employed to enforce a NFP’s promises to provide goods or services than may be employed to enforce a for-profit entity’s promises to provide similar goods or services, and therefore that NFP guidance is appropriate. For example, other parties (e.g. transferors) might not need to resort to legal action to enforce promises that a NFP transferee fails to honour (e.g. enforcement could occur through such mechanisms as a Ministerial or departmental directive). As a result of discussions of the ‘enforceability’ criterion in targeted outreach, the AASB tentatively decided to provide NFP examples of when arrangements would, or would not, create enforceable rights and obligations (see paragraphs IG38 – IG40 in Agenda Paper 19.4).
- 10 An issue to consider is whether describing enforceability using the phrase ‘legal or equivalent means’ in NFP-specific guidance might undermine the statement in IFRS 15 that “Enforceability of the rights and obligations in a contract is a matter of law”. Arguably, it should not, because of the different arrangements that can exist in the public NFP sector. Conversely, it may be argued that “a matter of law” is sufficiently broad to encompass mechanisms whereby other parties have legal authority to require the provision of goods or services. However, the reference to ‘equivalent means’ was included in response to concerns that this point would not be widely appreciated in the NFP public sector. On balance, AASB staff recommend describing enforceability using the phrase ‘legal or equivalent means’ in NFP-specific guidance.

Question for Board members

Q2 Do you agree with the AASB staff recommendation in paragraph 10 above to describe enforceability using the phrase ‘legal or equivalent means’ in NFP-specific guidance (i.e. do you agree to confirm the previous Board decision)?

- 11 As mentioned in paragraph 9 above, the AASB tentatively decided to provide NFP examples of when arrangements would, or would not, create enforceable rights and obligations, after discussions of the ‘enforceability’ criterion in targeted outreach. Various examples in paragraph IG38 in Agenda Paper 19.4 would also arise in the for-profit sector. Consequently, an issue to consider is whether providing those examples

might have unintended consequences for the interpretation of forthcoming AASB 15 *Revenue from Contracts with Customers* by for-profit entities. AASB staff think such a risk exists, but should not be a strong concern because the draft guidance seems unlikely to relate to controversial matters in the for-profit sector (i.e. it should generally be clear whether a for-profit entity has entered a contract with legally enforceable rights and obligations). Therefore, on balance, AASB staff recommend retaining the NFP examples (in paragraphs IG38 – IG40) of when arrangements would, or would not, create enforceable rights and obligations.

Question for Board members

Q3 Do you agree with the AASB staff recommendation in paragraph 11 above to retain in the ED the NFP examples of when arrangements would, or would not, create enforceable rights and obligations (i.e. do you agree to confirm the previous Board decision)?

Sufficiently specific promise

- 12 The AASB has tentatively decided it is necessary to indicate that a performance obligation of a NFP must involve a promise to transfer a good or service that is sufficiently specific to enable identification of how and when the obligation is satisfied. NFP guidance would indicate that, to be ‘sufficiently specific’, the promise must indicate both:
- (a) the nature or type of goods or services to be provided; and
 - (b) the cost, value or volume of the goods or services to be provided, or the period over which those goods or services must be provided (see paragraphs IG41 – IG44 in Agenda Paper 19.4).
- 13 In assessing whether the NFP guidance referred to in paragraph 12 above is necessary, it should be noted that the guidance on a ‘distinct good or service’ (or series of distinct goods or services) in paragraphs 22 – 30 of IFRS 15 is central to identifying an entity’s performance obligations under that Standard. The AASB was concerned that this guidance does not seem to address the circumstance where a NFP (e.g. a charity) can choose or change goods or services to be provided with transferred assets, in ways that make it difficult to distinguish a promised good or service in a contract with a customer from any of the entity’s other outputs. This situation does not commonly arise with for-profit entities, and the guidance on a ‘distinct good or service’ in IFRS 15 (which addresses the unit of account for performance obligations, rather than whether those obligations exist) does not appear to resolve the issue.
- 14 Unlike for-profit entities, some NFPs may receive some assets in respect of specific goods or services and some assets in general furtherance of the entity’s objectives (including a combination of both). Arguably, this circumstance creates a need for NFP guidance on the necessary degree of specificity of a promise to provide goods or services if that promise is to qualify as a performance obligation, including minimum criteria for identifying when a stipulation is sufficiently specific to enable identification of how and when the performance obligation is satisfied.

15 Conversely, some note that IFRS 15 states that:

“A contract with a customer generally explicitly states the goods or services that an entity promises to transfer to a customer. However, the performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in that contract. This is because a contract with a customer may also include promises that are implied by an entity’s customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer.” (paragraph 24)

16 Paragraph BC87 of IFRS 15 states that an example of promises to provide goods or services that are implied by the entity’s customary business practices and might create a valid expectation that the entity will transfer a good or service to the customer are “some when-and-if-available software upgrades”. Thus, under IFRS 15, some performance obligations are identified despite being inherently difficult to define in terms of the goods or services that will be transferred in satisfying those obligations. Some argue that:

- (a) there is not a NFP-specific reason to make a ‘NFP modification’ to IFRS 15 regarding the specificity of a performance obligation; and
- (b) adding NFP guidance on the necessary specificity of a promise might inadvertently imply that only explicit promises can give rise to performance obligations, which would be inconsistent with IFRS 15.

17 Nevertheless, AASB staff think a valid distinction can be made between implicit promises to provide when-and-if-available software upgrades and promises to provide unspecified benefits in accordance with an entity’s mission. They argue that when-and-if-available software upgrades are specifically identifiable services that are uncertain in timing and frequency, whereas promises to provide benefits that are not specified beyond being consistent with an entity’s mission are not promises to provide specifically identifiable services. They argue further that implicit promises, based on an entity’s customary practices, to provide when-and-if-available software upgrades create an obligation to stand ready to provide the upgrades (i.e. standing ready to respond, in part, to external events such as actions of competitors, and the development of new products) – similarly to an insurance contract or loan guarantee contract in which the stand-ready obligation is identifiable even if the amount and timing of transfers of assets (apart from rendering the service of standing ready) are difficult to predict. In contrast, they argue, treating promises to provide unspecified benefits in accordance with an entity’s mission as ‘stand-ready obligations’ would make the notion of stand-ready obligations so broad as to be indistinct from an entity’s business risks.

18 AASB staff think promises to provide unspecified benefits in accordance with an entity’s mission are substantially different from promises that are implied by an entity’s customary business practices, published policies or specific statements and create a valid expectation of the customer that the entity will transfer a good or service to the customer. Accordingly, staff think that the draft NFP guidance described in paragraph 12 above should be retained in the ED. Nevertheless, AASB staff also

think any NFP guidance on the necessary degree of specificity of promises should reiterate that implicit promises can give rise to performance obligations, if the promised performance is sufficiently specific to enable identification of how and when the obligation is satisfied.

Question for Board members

Q4 Do you agree with the AASB staff view that the draft NFP implementation guidance referred to in paragraph 12 above (on how specific a promise to transfer a good or service must be to qualify as a performance obligation) should be retained in the ED (i.e. do you agree to confirm the previous Board decision)?

Stipulation regarding the nature or type of goods or services to be provided

- 19 At the AASB meeting on 28 – 29 May 2014, some Board members commented it would be useful to give further consideration to whether a stipulation regarding “the nature or type of goods or services to be provided” would be sufficiently specific to enable identification of how and when a performance obligation is satisfied. They expressed concern that, for some entities providing services such as ‘education’, a stipulation of the nature or type of goods or services to be provided, and of the period over which those goods or services must be provided (see paragraph IG42 of the draft ED in Agenda Paper 19.4) might lead to vaguely-identified ‘performance obligations’ and revenue recognition based principally on the period to which a transfer to the entity relates.
- 20 In relation to the concern in paragraph 19 above, paragraph IG42 of the draft ED also indicates that the ‘specificity’ criteria in that paragraph are minimum criteria that might not be sufficient for meeting the principle in paragraph IG41 that a performance obligation of a NFP must involve a promise to transfer a good or service that is sufficiently specific to enable identification of how and when the obligation is satisfied. AASB staff were neither able to identify a particular characteristic of promised goods or services that would ensure the proposed principle in paragraph IG41 is met, nor to identify a more apposite characteristic of a promise for illustrating that principle. They noted that specifying a more detailed criterion than “the nature or type of goods or services to be provided” might arbitrarily exclude some performance obligations from being identified as such.

Question for Board members

Q5 What are your views on the comments in paragraphs 19 – 20 above about whether a stipulation regarding “the nature or type of goods or services to be provided” would be sufficiently specific to enable identification of how and when a performance obligation is satisfied (i.e. do you agree to confirm the previous Board decision)?

Donation component of a contract

- 21 The AASB tentatively decided the principles in IFRS 15 regarding the measurement of performance obligations should be re-expressed so that contracts or components of contracts that do not give rise to performance obligations are treated as giving rise to ‘immediate income’. Accordingly:

- (a) performance obligations of a NFP arising from a particular contract entered into by that entity would be measured at their aggregate ‘fair value’, which in turn is measured directly at the stand-alone selling price for the unit of account for the usual sale of the promised goods or services (which might be the sum of the selling prices for separate sale of various promised goods or services);
 - (b) the difference between the total transaction price and the sum of the stand-alone selling prices of each unit of account should be recognised as income or expense immediately; and
 - (c) the fair value of those performance obligations is allocated to the separate performance obligations by applying, without modification, the relative stand-alone selling price basis in IFRS 15 (see paragraphs Aus75.1 – Aus75.3 of Agenda Paper 19.4).
- 22 The AASB considered that ‘re-expression’ of the principles in IFRS 15 in the manner described in paragraph 21 above is necessary because IFRS 15 does not acknowledge contracts involving a donation component, which can be significant for some contracts of NFPs. The approach described in paragraph 21 above is the only modification of the recognition and measurement requirements of IFRS 15 tentatively decided by the AASB.
- 23 The AASB considered that this proposal is not a departure from transaction neutrality, because it addresses an economic phenomenon that seldom is a component of contracts of for-profit entities. 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 to ensure user needs are met (paragraph 12) and identifies non-exchange transactions as examples of transactions that may warrant a NFP modification (paragraph 15(a)).
- 24 Given that paragraph 9 of AASB 13 *Fair Value Measurement* defines the fair value of a liability as an exit price—that is, the price that would be paid to transfer the liability to another market participant—AASB staff think it seems problematic to describe the fair value of a bundle of performance obligations as the stand-alone selling price for the promised goods or services. AASB staff think the AASB’s previous tentative decision to measure any donation component of a transaction at its fair value would also be achieved by deducting from the transaction price the stand-alone selling price of the promised goods or services, without referring to measuring performance obligations at their ‘fair value’. The main concerns regarding the AASB’s tentatively decided approach to identifying and recognising a donation component of a contract (as described in paragraph 21 above) are discussed in paragraphs 25 – 40 below.

Main concerns

Potential confusion

- 25 A concern arising from the tentatively decided residual approach to identifying and measuring any donation component of a contract (as described in paragraphs 21(a) and (b) above) is that it could cause confusion because IFRS 15 refers to using a ‘residual approach’ to estimate the stand-alone selling price of the good or service underlying a separate performance obligation. Specifically, paragraph 79 of IFRS 15 states that:

“Suitable methods for estimating the stand-alone selling price of a good or service include ...

- (c) Residual approach—an entity may estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract. However, an entity may use a residual approach to estimate, in accordance with paragraph 78, the stand-alone selling price of a good or service only if one of the following criteria is met:
 - (i) the entity sells the same good or service to different customers (at or near the same time) for a broad range of amounts (ie the selling price is highly variable because a representative stand-alone selling price is not discernible from past transactions or other observable evidence); or
 - (ii) the entity has not yet established a price for that good or service and the good or service has not previously been sold on a stand-alone basis (ie the selling price is uncertain).”

26 Some argue that a method of estimating the measured amount of a performance obligation under IFRS 15 would, under the NFP modification described in paragraph 21 above, be used to estimate something altogether different—i.e. the amount of consideration received in a transaction that does not represent a performance obligation (and is recognised as income immediately).

27 Arguably, the concern described in paragraphs 25 – 26 above could be overcome by:

- (a) prohibiting NFPs from applying the residual approach in paragraph 79(c) of IFRS 15, because applying paragraph 79(c) of IFRS 15 when estimating the stand-alone selling price of each of the goods or services promised in a contract would, inappropriately, preclude the identification and recognition of any donation component of the contract (see paragraph Aus80.1 in Agenda Paper 19.4); and
- (b) explaining in the Basis for Conclusions on the ED that, under the residual approach applied by NFPs to identify any donation component, the residual measure would be of a different economic phenomenon than the economic phenomenon measured using a residual approach under IFRS 15. That is, for NFPs, the residual would measure a donation; while in respect of for-profit entities, the residual would measure a promised good or service.

Is the modification necessary?

28 AASB staff explored whether immediate recognition as income of ‘donation components’ of contracts of NFPs would occur by applying IFRS 15 without the NFP modification described in paragraph 21 above. Specifically, staff considered arguments that such treatment would result from:

- (a) treating the donation component as belonging outside the scope of IFRS 15;

- (b) deeming a donation to the entity as giving rise to a distinct good or service to the donor and then applying the residual approach in paragraph 79(c) of IFRS 15 (see paragraph 25 above) on the grounds that the stand-alone selling price attributable to the donation is uncertain.

These arguments are discussed in paragraphs 29 – 33 below.

- 29 Regarding paragraph 28(a) above, AASB staff note that paragraph 7 of IFRS 15 states that:

“A contract with a customer may be partially within the scope of this Standard and partially within the scope of other Standards listed in paragraph 5.

- (a) If the other Standards specify how to separate and/or initially measure one or more parts of the contract, then an entity shall first apply those separation and/or measurement requirements in those Standards. ...”

- 30 Arguably, treating the donation component of a contract as belonging outside the scope of IFRS 15 and dealing with it in another Standard could achieve immediate recognition as income of ‘donation components’ of contracts of NFPs without modifying the requirements of IFRS 15 as adopted in Australian Accounting Standards. A possible advantage of this treatment is minimising the potential for confusion discussed in paragraphs 25 – 27 above. However, even if a donation component of a contract were dealt with in another Standard, it would still be necessary to determine whether the principles in IFRS 15 should be modified for NFPs. (Paragraphs 22 – 23 above set out the AASB’s reasons why those principles should be modified.) In addition, excluding the donation component of a contract from the scope of a Standard on income from transactions of NFPs would seem inconsistent with the AASB’s goal of demonstrating how, with limited modification, the principles in IFRS 15 can be applied to all transactions giving rise to income of NFPs (except those already covered by other Australian Accounting Standards). For these reasons, AASB staff recommend not to exclude the donation component of a contract from the scope of a Standard on income from transactions of NFPs.

- 31 Regarding paragraph 28(b) above, paragraph 27 of IFRS 15 describes ‘distinct’ goods or services. It might be argued that a donation to the entity would give rise to a distinct good or service because the donor can benefit from the donation “either on its own or together with other resources that are readily available to the customer” (paragraph 27(a) of IFRS 15). Arguably, that benefit would consist of contributing to a donor’s achievement of its objective to distribute assets to worthy causes. Under that view, the residual approach in paragraph 79(c) of IFRS 15 could be applied to measure the donation component. However, the residual approach in paragraph 79(c) of IFRS 15 could only be applied to measure a donation component if the ‘selling price’ of the donation is uncertain.

- 32 AASB staff have the following concerns with the line of argument in paragraph 31 above:

- (a) treating an entity as providing a service to a donor by accepting a donation seems to adopt an unacceptably broad notion of a transfer of a service. The recipient need not transfer anything to the donor in providing that ‘service’.

Furthermore, if an entity receives assets on the basis of its general activities— e.g. doing charitable works—and not on the basis of specific promises², the fact that the donor obtains ‘benefit’ in achieving its purpose for the donation does not stem from a promise to provide particular goods or services; and

- (b) in relation to when paragraph 79(c) of IFRS 15 may be applied, arguably the requirement that the ‘selling price’ of the donation must be uncertain would not be met if the donation’s amount is explicitly identified in a NFP’s external documentation of a transaction (e.g. in an appeal) or is observable from market evidence of the other components of the contract (e.g. where the other components are generic goods or services with observable prices). Thus, it would seem that when there is objective evidence of the amount of a donation component, that component would not qualify for immediate recognition as income using a residual approach. Furthermore, it not apparent how the stand-alone selling price of the donation would be estimated in accordance with any other parts of paragraphs 74 – 86 of IFRS 15 (i.e. the donation would not be accounted for separately from the performance obligations); and
- (c) treating a donation to the entity as giving rise to a distinct good or service to the donor would be likely to cause confusion because it does not accord with an ordinary understanding of a donation (i.e. it would seem an artificial approach designed to fit donation components within ‘goods or services’).

33 For the reasons in paragraphs 31 – 32 above, AASB staff recommend not to treat a donation to the entity as giving rise to a distinct good or service to the donor and apply the residual approach in paragraph 79(c) of IFRS 15 on the grounds that the stand-alone selling price attributable to the donation is uncertain.

Unfaithful representation and excessive cost

34 From targeted outreach, AASB staff have heard concerns that applying a residual approach to identify and measure donation components of contracts could often result in reporting ‘donations’ that are not a faithful representation of the transaction(s) involved, and would often also involve cost that exceeds the benefits to users. These concerns are discussed in paragraphs 35 – 40 below.

35 Arguably, when promised goods or services are fairly homogeneous, their stand-alone selling prices (and, thus, the amount of donation measured using a residual approach) can be estimated with reliability and without great cost. For example, if a charity sells generic cards or stationery in a disclosed fundraising appeal, at a price materially above the price at which those items can readily be bought elsewhere, it seems that the purchaser is intentionally making a donation that can be estimated reliably. A worked example of using a residual approach when promised good or services are fairly homogeneous is set out in paragraph 36 below.

² For example, some charities might indicate what a particular amount donated might purchase, without necessarily promising to use particular donations to purchase particular goods or services.

Example 1

- 36 The Sandtrap Country Golf Club (a NFP) has facilities that include a restaurant and accommodation. As a fundraiser, it sells packages that include one night's accommodation and a set-menu dinner for two at a total cash price of \$400. Table 1 sets out the stand-alone selling price of each of the promised accommodation and dinner. The accommodation and dinner are identified as separate performance obligations because each service is distinct. The club does not make a sufficiently specific promise regarding how the donated funds will be used and, consequently, a performance obligation is not identified for the donation component.

Item	Accommodation	Dinner	Donation
Stand-alone selling price	\$150	\$120	\$130*

* The implicit amount of the donation is a residual because it has no stand-alone selling price.

- 37 However, identifying whether a donation component exists and measuring such a component might be problematic when the promised goods or services are not homogeneous. Particular goods or services can have different prices for different markets or customers. Even with a fund-raising dinner at an 'inflated' price, AASB staff think it would be inappropriate to measure the donation component by deducting from the ticket price a stand-alone price for the food and refreshments, because a value should be attributed to participating in the social event. In such scenarios, although the transaction includes a donation component, it might be impracticable to faithfully represent the fair value of the donation, because a market might not exist for the package without the donation component.
- 38 In addition, when the promised goods or services are not homogeneous, the time and cost of estimating the aggregate of the stand-alone selling prices of the promised goods or services might exceed the benefits to users. This issue generally wouldn't arise for for-profit entities applying IFRS 15 (the qualification is that when for-profit entities promise multiple specialised goods or services in a contract, challenges could arise in estimating the stand-alone selling prices of the different goods or services under IFRS 15).
- 39 In view of the concerns noted in paragraphs 37 – 38 above, AASB staff recommend the AASB considers an approach in which:
- (a) the residual approach to identifying and measuring a donation component of a contract is required only when there are observable inputs for estimating the stand-alone selling prices of all of the promised goods or services; and
 - (b) in circumstances other than those described in (a) immediately above:

- (i) the stand-alone selling price allocation methodology in IFRS 15 would be applied without modification (i.e. it would be presumed there is no donation component of the contract), with the exception mentioned in (ii) below; and
- (ii) an entity can elect to rebut the presumption in (i) that there is no donation component of the contract, using methods for estimating the selling price of all of the promised goods or services (at the unit of account for the usual sale of those goods or services) consistent with the estimation methods in paragraph 79 of IFRS 15.

40 The staff recommendation in paragraph 39 above is tentative. If Board members consider it merits exploration, it would be developed further and explained more precisely (supported by examples). At this meeting, staff seek an indication of whether to pursue this variation of the approach previously tentatively decided by the Board. AASB staff think the approach described in paragraph 39 seems likely to achieve an appropriate balance between providing relevant information about donation components of contracts and achieving faithful representation, without requiring undue cost.

Questions for Board members

Q6 Do you agree with the AASB staff recommendations:

- (a) not to exclude the donation component of a contract from the scope of a Standard on income from transactions of NFPs (see paragraph 30 above)? and
- (b) not to treat a donation to the entity as giving rise to a distinct good or service to the donor and apply the residual approach in paragraph 79(c) of IFRS 15 on the grounds that that the stand-alone selling price attributable to the donation is uncertain (see paragraph 33 above)? (i.e., for (a) and (b), do you agree to confirm the previous Board decision, subject to Question 7 below)

Q7 What are your tentative views regarding whether to amend the Board's tentatively decided approach to identifying and measuring donation components of contracts in the manner described in paragraph 39 above?