

## Inventory of AASB's Tentative NFP Modifications of IASB ED preceding IFRS 15

The second column below summarises the AASB's previous tentative decisions regarding NFP modifications of the IASB's 2011 re-exposure draft (ED) that preceded IFRS 15 (on the assumption that IFRS 15 reflected that ED), to include in the ED on Income from Transactions of NFP Entities. They are expressed here as decisions to modify IFRS 15 (AASB staff are not aware of substantial changes between the ED and IFRS 15 that affect these NFP modifications), because the NFP ED will be based on IFRS 15. The Board's reasons for tentatively deciding to make those modifications (from Board minutes) are noted in the third column, together with some AASB staff comments set out parenthetically in *italics*.

### Tentative NFP Modifications of IFRS 15

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
	<b>Amendments of IFRS 15 relation to contracts with 'customers'</b>	
Aus8.1, Aus129.1 – Aus129.15	The ED should apply to all income of NFPs, rather than only to their revenue from contracts with customers. (However, it should not override the requirements of other Accounting Standards adopted for NFPs.)	This reflects that the resulting Standard replaces most of the income recognition requirements of AASB 1004 <i>Contributions</i> , which deals with transactions that, in the for-profit sector, would often be subject to AASB 120 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> . Because AASB 120 is not applicable to NFPs, withdrawing most of the income recognition requirements of AASB 1004 creates a need for replacement requirements. From a transaction neutrality perspective, the AASB considered that the principles in IFRS 15 can (and should) be applied to all income of NFPs that is not subject to another Australian Accounting Standard, with limited modifications that are mostly composed of guidance on matters outside the focus of IFRS 15.

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
Appendix A; IG32	The definition of 'contract' in IFRS 15 should be amended for NFPs by extending its reference to an 'agreement' to also include a reference an 'other arrangement'.	This would make the definition more inclusive, because some performance obligations are imposed on NFPs without those entities necessarily <i>agreeing</i> to incur them (e.g. when a government directs an agency to provide an additional service).
IG33	Paragraph 10 of IFRS 15 states that: "Contracts can be written, oral or implied by an entity's customary business practices." Guidance should be provided that the reference to 'business' in that sentence shall be read by NFPs in the context of their activities.	The NFP guidance is intended to avoid misconceptions that the reference to 'business' in 'customary business practices' makes that phrase inapplicable to NFPs.
IG34 – IG35	Clarification should be included, in a NFP context, of the meaning of 'customer' and the relevance of the notion of 'customer' in IFRS 15. It is unnecessary to specify which entity should be regarded as the 'customer', because the focus should be on the nature and extent of the NFP's performance obligations.	For NFPs, 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. The AASB tentatively decided it is unnecessary for a NFP to identify the customer in order to account for the performance obligation. [ <i>This issue is discussed in more detail in paragraphs 4 – 8 of the Issues Paper (Agenda paper 19.2).</i> ]
IG36	Clarification should be provided that the requirement in IFRS 15, paragraph 9(d), that a contract must have 'commercial substance' would be satisfied for a NFP entity if the contract has economic substance.	This guidance is intended to prevent a NFP's 'non-commercial' objectives from nullifying a NFP's ability to fall within the scope of the requirements of IFRS 15 as incorporated in Australian Accounting Standards.

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
IG37	<p>Clarification should be included, in a NFP context, that a promise to provide goods or services is a performance obligation if it has the following features, and guidance should be provided on when these features exist in a NFP context:</p> <ul style="list-style-type: none"> <li>(a) it involves a stipulation that is sufficiently specific, regarding the goods or services to be transferred, to enable identification of how and when the performance obligation is satisfied; and</li> <li>(b) it arises from an arrangement that creates enforceable rights and obligations.</li> </ul>	See the next two rows (below) for background.
IG41 – IG44	<p>Minimum criteria for a stipulation to be ‘sufficiently specific’ are that the promise to provide goods or services is specified as to:</p> <ul style="list-style-type: none"> <li>(a) the nature or type of goods or services to be transferred; and</li> <li>(b) one or more of: <ul style="list-style-type: none"> <li>(i) the cost or value of the goods or services;</li> <li>(ii) the volume of the goods or services; and</li> <li>(iii) the period over which the goods or services must be provided. A stipulation that a transfer of assets to a NFP in a non-exchange transaction relates to a particular time period is, of itself, insufficient to meet this criterion—the nature or type of goods or services to be transferred must also be stipulated (e.g. it would be insufficient if a general purpose grant were indicated to be the only grant from the grantor until the next reporting period).</li> </ul> </li> </ul>	<p>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. This guidance does not seem to address the circumstance where a NFP (e.g. a charity) can choose or substitute goods or services to be provided with transferred assets, in ways that make it difficult to distinguish a promised good or service 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. Therefore, minimum criteria should be provided on when a stipulation is sufficiently specific to enable identification of how and when the performance obligation is satisfied. [<i>This issue is discussed in more detail in paragraphs 12 – 20 of the Issues Paper (Agenda paper 19.2).</i>]</p>

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
IG38 – IG40	<p>NFP guidance should be provided that, for an arrangement to create enforceable rights and obligations, the transferor must be capable of enforcing that promise by legal or equivalent means. In this regard, NFP guidance should indicate that an arrangement would be enforceable if:</p> <ul style="list-style-type: none"> <li>(a) another party has a right to enforce specific performance;</li> <li>(b) a mechanism (such as a directive given by a Minister or government department to a controlled public sector entity) is available to another party with legal authority to require a transfer of goods or services; or</li> <li>(c) the entity has an enforceable return obligation or another party has a capacity to impose a severe penalty for non-performance.</li> </ul> <p>NFP guidance should be provided that the following circumstances would not, of themselves, make an arrangement enforceable upon the entity:</p> <ul style="list-style-type: none"> <li>(a) another party (e.g. a transferor) has a capacity to respond to the entity's non-performance of a promise by withholding future funding to which the entity is not presently entitled (i.e. the other party does not have a capacity to cancel a receivable of the entity); and</li> <li>(b) a NFP's statement of intent to spend money or consume resources in particular ways that will be the subject of budget-to-actual reporting, or an acquittal process, to discharge accountability for the raising and expenditure or consumption of resources.</li> </ul>	<p>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 the paragraph in the adjacent column). 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 by for-profit entities to enforce promises to provide similar goods or services. 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).</p> <p><i>[This issue is discussed in paragraphs 9 – 11 of the Issues Paper (Agenda paper 19.2).]</i></p>

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
<p>Aus75.1 – Aus75.3; IG45 – IG46</p>	<p>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 liabilities are treated as giving rise to ‘immediate income’. Accordingly:</p> <ul style="list-style-type: none"> <li>(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);</li> <li>(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</li> <li>(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.</li> </ul>	<p>Re-expression of those principles is necessary because IFRS 15 does not acknowledge contracts involving a donation component, which can be significant for some contracts of NFPs.</p> <p>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 <i>Process for Modifying IFRSs for PBE/NFP</i> 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)).</p> <p><i>[This issue is discussed in more detail in paragraphs 21 – 40 of the Issues Paper (Agenda paper 19.2).]</i></p>

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
Aus80.1	NFPs should not apply the residual approach in paragraph 79(c) of IFRS 15 when estimating the total value of the recognised performance obligations arising from a contract.	Applying the residual approach in paragraph 79(c) of IFRS 15 (even in the limited circumstances in which paragraph 79(c) of IFRS 15 permits the residual approach to be applied) when estimating the total value of the recognised performance obligations arising from a contract would, inappropriately, preclude the identification and recognition of any donation component of the contract. This is because, under the residual approach, the difference between the transaction price and the aggregate amount of the stand-alone selling prices of other performance obligations would be wholly attributed to the performance obligation measured under the residual approach. For some contracts, this would not faithfully represent the components of the contract because it would omit to identify a donation component.

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
	<b>Amendments to other Australian Accounting Standards</b>	
D4; IG47 – IG48	<p>Consistent with paragraphs 5.1.1 and B5.1.1 of AASB 9 <i>Financial Instruments</i>, on initial recognition of a financial asset or financial liability, 'donation' income should be recognised for the difference between the transaction price and the fair value of the financial asset or financial liability plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability (assuming the difference increases equity<sup>1</sup>).</p> <p>However, a limited NFP-specific amendment should be made to paragraph B5.1.2A of AASB 9, which states that 'day one' gains/losses on initial recognition of financial assets and financial liabilities arising from differences between the transaction amount and fair value may only be recognised when the fair value is based on a Level 1 input or data from observable markets.</p> <p>The above-mentioned amendment to IFRS 9 should state that, when a NFP recognises a financial asset or financial liability arising from a transaction that includes a donation, the donation should be recognised regardless of whether the fair value of the financial instrument is based on a Level 1 input or data from observable markets [a corresponding amendment to AASB 139 would also be necessary].</p>	<p>Some transactions of NFP entities giving rise to financial instruments include a donation component. Recognition of such a donation component is necessary for faithful representation of the transaction.</p> <p>Retaining AASB 9's 'observable variables' constraint on recognising 'day one' gains/losses would give rise to a significant risk that financial statements would not recognise such a donation component, because the fair value of various financial instruments with a donation component might not be based on data from observable markets.</p>

<sup>1</sup> In applying AASB 9, an expense might be recognised instead. However, because the draft AASB ED does not address donor accounting, it only refers to donation income in this context.

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
D5; IG31	<p>Paragraph Aus10.1 of AASB 102 <i>Inventories</i> requires NFPs to measure the 'cost' of inventories acquired at no cost or for nominal consideration at current replacement cost. The ED should propose amending AASB 102 so that the 'cost' of such inventories is measured at their initial fair value rather than their current replacement cost.</p>	<p>Such an amendment would achieve consistency in the initial measurement of all assets acquired at no cost or for nominal consideration. This reflects:</p> <ul style="list-style-type: none"> <li>(a) that various Australian Accounting Standards include NFP modifications requiring the 'cost' of assets acquired in such a manner to be measured at initial fair value; and</li> <li>(b) the principle in paragraph 66 of IFRS 15 that non-cash consideration received in a contract should be measured at fair value (albeit that IFRS 15 requires this when determining the transaction price for a contract with non-cash consideration).</li> </ul>



Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
D6; IG31	<p>An amendment to AASB 141 should be proposed, to specify that government grants of biological assets are initially measured at fair value (rather than fair value less costs to sell) [see paragraphs Aus12.1 and Aus 38.1].</p>	<p>The rationale for the proposed amendment to AASB 102 noted in paragraph D5 above also applies to government grants of biological assets.</p> <p><i>[AASB staff comment: Consistent with the adjacent tentative Board decision, staff suggest that other acquisitions of biological assets at no cost or for nominal consideration are also initially measured at fair value (this is also reflected in proposed paragraphs Aus12.1 and Aus 38.1).]</i></p> <p><i>[AASB staff comment: We also suggest clarifying that the measurement requirements for biological assets to which a government grant relates, or are received in a government grant, are specified in AASB 141 (and not the new Standard developed from this ED): see paragraphs Aus38.1 and Aus38.3. If the government grant relates to biological assets:</i></p> <ul style="list-style-type: none"> <li><i>(a) the grant would be measured under another Standard (usually at an amount of cash received); and</i></li> <li><i>(b) the new Standard developed from this ED would apply only to the treatment of the corresponding credit (see paragraph Aus38.2).</i></li> </ul> <p><i>Government grants related to biological assets would be accounted for under the Standard developed from this ED even if the biological assets are measured on the cost basis due to an inability to measure reliably the fair value of the biological assets (see paragraph Aus38.2).]</i></p>

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
	<b>Modifications addressing matters within the scope of AASB 1004<sup>2</sup></b>	
Aus129.1 – Aus129.7	<p>NFP requirements for the recognition of revenue, or other income, from transactions outside contracts with customers should be specified separately in relation to:</p> <ul style="list-style-type: none"> <li>• transfers of assets to the entity; and</li> <li>• the extinguishment or transfer of a liability (or part of a liability) of the entity.</li> </ul>	These requirements reflect the broader scope of the [draft] Standard than the scope of IFRS 15, as referred to on page 1 of this paper.

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<sup>2</sup> This section also deals with NFP modifications that do not relate to any existing requirement of an Australian Accounting Standard.

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
Aus129.8 – Aus129.15	<p>NFP disclosure requirements should be specified in relation to income that:</p> <ul style="list-style-type: none"> <li>• does not arise from contracts with customers; or</li> <li>• arises from a donation in a contract with a customer.</li> </ul> <p>Disclosures indicated as potentially necessary to meet the disclosure objective in the proposed Standard include:</p> <ul style="list-style-type: none"> <li>• amounts of voluntary and involuntary transfers recognised as income;</li> <li>• the amount of receivables that are not financial assets and the amount of interest income recognised in relation to those receivables;</li> <li>• amounts of advance receipts of future taxes or future rates, and the future periods to which those advance receipts relate;</li> <li>• amounts of any other obligations to stand ready to refund assets;</li> <li>• for each class of recognised income disclosed, the basis on which the fair value of inflows of resources was measured; and</li> <li>• for each class of taxation income that the entity cannot measure reliably during the period of the taxable event, information about the nature of the tax and the reason(s) why that income cannot be measured reliably.</li> </ul>	<p>These requirements reflect the broader scope of the [draft] Standard than the scope of IFRS 15, as referred to on page 1 of this paper.</p> <p>Where corresponding disclosures exist in AASB 1004 and IPSAS 23 <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>, the relevant paragraphs therein are noted parenthetically in italics after the [draft] disclosures to which they relate.</p>

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
Appendix A; IG6 – IG25	<p>NFP entity guidance on when control is obtained of:</p> <ul style="list-style-type: none"> <li>• voluntary transfers, including: <ul style="list-style-type: none"> <li>○ non-contractual parliamentary appropriations</li> <li>○ bequests</li> <li>○ gifts and donation, including goods in kind and volunteer services</li> </ul> </li> <li>• involuntary transfers, including issues regarding: <ul style="list-style-type: none"> <li>○ when the taxable event occurs, for taxes</li> <li>○ when control of fines arises</li> </ul> </li> </ul> <p>Related definitions of 'taxes', 'taxable event' and 'fines' are included in Appendix A.</p>	<p>This guidance reflects the broader scope of the [draft] Standard than the scope of IFRS 15, as referred to on page 1 of this paper.</p> <p>Where corresponding guidance is provided in AASB 1004 or IPSAS 23, the relevant paragraphs therein are noted parenthetically in italics.</p>
IG26 – IG29	<p>NFP entity recognition criteria for assets, other than for assets within the scope of another Australian Accounting Standard</p>	<p>This guidance reflects the broader scope of the [draft] Standard than the scope of IFRS 15, as referred to on page 1 of this paper.</p> <p>Where corresponding requirements/guidance are provided in AASB 1004 or IPSAS 23, the relevant paragraphs therein are noted parenthetically in italics.</p>

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
IG30 – IG31	NFP entity requirements for measurement of assets on initial recognition, other than for assets within the scope of another Australian Accounting Standard	This guidance reflects the broader scope of the [draft] Standard than the scope of IFRS 15, as referred to on page 1 of this paper. It also draws together a measurement principle stated separately in different Standards as required by legislative drafting principles (i.e. requirements must be proximate to the topic at hand, and not merely stated in a Standard focusing on income recognition).
IG49 – IG63	<p>NFP guidance is provided on application of the general principles in the ED to particular transaction types that typically do not arise from contracts with customers, including guidance on:</p> <ul style="list-style-type: none"> <li>• transfers to the entity</li> <li>• fines</li> <li>• bequests</li> <li>• volunteer services</li> </ul>	<p>This guidance reflects the broader scope of the [draft] Standard than the scope of IFRS 15, as referred to on page 1 of this paper.</p> <p>Where corresponding requirements/guidance are provided in AASB 1004 or IPSAS 23, the relevant paragraphs therein are noted parenthetically in italics.</p>

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
Appendix A; IG64 – IG67; IG70 – IG72	<p>‘Advance receipts’ of taxes and transfers are amounts received in relation to an expected future taxable event or in relation to another transfer arrangement before it becomes binding. They give rise to liabilities if a future sacrifice of economic benefits would be required if the specified future event (the taxable event occurring or the arrangement becoming binding) does not occur. The nature of such a liability is an unconditional obligation to stand ready to return transferred assets if the specified future event does not occur.</p> <p>The ED should include a definition of ‘advance receipt’ and provide guidance that, consistent with AASB 9, advance receipts liabilities should be measured at the amount that would be required to be returned if the taxable event did not occur or the transfer arrangement did not become binding. This would generally be the amount of the assets received in advance.</p>	<p>This guidance reflects the broader scope of the [draft] Standard than the scope of IFRS 15, as referred to on page 1 of this paper.</p> <p>In relation to transfers, an advance receipt may require the entity to sacrifice the economic benefits received in advance, either by refunding assets or by performing once the arrangement becomes binding.</p>
Appendix A; IG68 – IG81	<p>NFP guidance is provided on application of the general principles in the ED to taxes, including:</p> <ul style="list-style-type: none"> <li>• classification of taxes</li> <li>• advance receipts of taxes (see row above), and other tax liabilities</li> <li>• measurement of assets arising from taxation transactions</li> <li>• measurement of tax income: expenses paid through the tax system and tax concessions</li> </ul> <p>Related definitions of ‘expenses paid through the tax system’ and ‘tax concessions’ are included in Appendix A.</p>	<p>This guidance reflects the broader scope of the [draft] Standard than the scope of IFRS 15, as referred to on page 1 of this paper.</p> <p>Where corresponding requirements/guidance are provided in AASB 1004 or IPSAS 23, the relevant paragraphs therein are noted parenthetically in italics.</p>

Para. ref.	Tentative NFP modification of IFRS 15	Board's reason(s)/[staff comment(s)]
Appendix A; IG82 – IG86	NFP guidance on contributions by owners, and a definition of same in Appendix A.	<p>This guidance reflects the broader scope of the [draft] Standard than the scope of IFRS 15, as referred to on page 1 of this paper. Guidance on contributions by owners is necessary because contributions by owners are referred to in the income recognition requirements in paragraphs Aus129.1(b) and Aus129.4(b) of the [draft] Standard.</p> <p>Where corresponding guidance is provided in AASB 1004 or AASB Interpretation 1038 <i>Contributions by Owners Made to Wholly-Owned Public Sector Entities</i><sup>3</sup>, the relevant paragraphs therein are noted parenthetically in italics.</p>

<sup>3</sup> The Board has included 'Measurement of contributions by owners as owners' on its Work Program as a low-priority project for the Research Centre. Despite Board members having expressed concerns about whether AASB Interpretation 1038 should be retained, the Board previously decided not to address that issue as part of its project on Income from Transactions of NFPs. This is because the Board was concerned that reviewing the status of that Interpretation could delay the achievement of the core objective for this project, i.e. the development of a new income recognition model based on IFRS 15.