AUSTRALIAN ILLUSTRATIVE EXAMPLES FOR NOT-FOR-PROFIT ENTITIES [RELATED TO RECOGNISED DONATIONS IN CONTRACTS WITH CUSTOMERS]

Example 1: Grant to Another Level of Government Without Stipulations

1 The Australian Government (transferor) makes a grant of $10 million to a local government in a socio-economically deprived area. The local government (reporting entity) is required under its constitution to undertake various social benefit programmes. There are no stipulations attached to the grant.

2 Because there are no stipulations attached to the grant, there is no performance obligation, despite the transferor's and community's expectations that the grants will be used to provide social benefits. Accordingly, the transfers are recognised as assets and income for the period in which the local government obtains control of the transfers. Immediate recognition of the grant as income occurs regardless of when the local government renders services with the grant.

Example 2: Payment to a Charity for Discretionary Use

3 An Australian charity advises potential donors of a range of goods or services that donations of particular amounts would enable to charity to provide. For example, it advises potential donors that each donation of $200 would enable the charity to provide a household latrine to residents in a particular developing country. It includes a disclaimer in its representations indicating that donated money may be used for other aid activities in the region in response to changing circumstances.

4 During the current period, consideration received by the charity included 500 donations of $200 each, indicated by the donors to be for the purpose of providing household latrines. Provision of household latrines was suspended by the charity during the period due to an outbreak of war. The charity redirected some of the donations received for household latrines on emergency food and accommodation for displaced people in that country. Because of the conditions upon which the donations were made, if any donors were to disapprove of that redirection of aid, they would have no recourse against the charity.

5 Because the charity has discretion over how donated money is used (provided the use is consistent with its mission), it does not have an obligation to the donor to transfer a specific good or service in order to

be entitled to the promised consideration. Therefore, the charity would recognise the donations as income immediately upon gaining control of them.

Example 3: Charity's Enforceable Promises

6 A major Australian company constructs dwellings for 7,500 homeless people in various Australian cities and contracts with an Australian charity to run those dwellings (including placing people in that accommodation and providing counselling and other services to those inhabitants). The company pays the charity $15 million per quarter, in advance, for those services. The charity must acquit the consideration received, which is refundable if, and to the extent that, specified performance conditions are not met. On 30 June 20X1, the charity receives a payment of $15 million for the quarter beginning on 1 July 20X1.

7 Based on similar contracts to provide similar services to public sector entities, the charity concludes that the consideration of $15 million faithfully reflects the aggregate stand-alone selling price of the promised services because it sells similar services in similar circumstances to similar customers. For this reason, and because there is neither an indication by the customer that a component of the consideration is provided without expecting services to be transferred to it in return, nor is there a prior relationship between the customer and the charity involving donations, the charity concludes that the contract does not include a donation component.

8 Because the charity is operating as a service provider and there is no donation component, the charity recognises revenue in accordance with IFRS 15 without applying any NFP modifications. Accordingly, the charity identifies a performance obligation in respect of the promised services to which the quarterly instalment received in advance relates, and consequently recognises a contract liability for $15 million.

Example 4: Fundraising Drive – Goods

9 A not-for-profit entity sells chocolates by a recognised manufacturer as a fundraising drive. The chocolates are repackaged to explicitly indicate the fundraising purpose, and are sold by the not-for-profit entity for a 25% mark-up on their usual price charged by retailers.

10 The not-for-profit entity assesses that each sale of chocolates includes a donation component, because of its explicit fundraising purpose. Customers buying the chocolates would have been unlikely to pay a

premium for the chocolates if not for the implicit donation signalled by the announced fundraising purpose of each sale.

11 The not-for-profit entity decides the best approach to measure the donation component of each sale is to deduct the stand-alone selling price of the chocolates from the customer consideration. In applying paragraph 79(a) of the [draft] Standard, the not-for-profit entity uses the retail selling price to determine the stand-alone selling price of the chocolates. As mentioned in paragraph 9 above, the chocolates are sold by the not-for-profit entity for a 25% mark-up on their price charged by retailers. Accordingly, the not-for-profit entity classifies 80% [i.e. 1.0 ÷ (1.0 + 0.25)] of the consideration received as revenue from sales of goods, and 20% of the consideration received as donations income (which, depending on the circumstances, might be classified as either revenue or other income).

Example 5: Fundraising Drive – Good and Service

12 A golf club (not-for-profit entity) 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 for a total cash price of $500. It 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 value 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 donation component is non-refundable.

13 The golf club assesses that each package sale includes a donation component, because of its explicit fundraising purpose. Customers buying the promised accommodation and promised dinner would have been unlikely to pay a premium for those promises if not for the implicit donation signalled by the announced fundraising purpose of each package sale.

14 The club applies a residual approach to measure the amount of the donation. Accordingly, the club measured the donation component at $500 fundraising package price – $325 bundled price for dinner and accommodation = $175 (i.e. the advertised amount).

15 Because the donation is not refundable, the entity would recognise the donation component as income when the consideration from the customer is received or receivable. The entity would recognise revenue

of $325 allocated to the accommodation and dinner as and when those services are provided to the customer.

16 Assume, instead of the facts in paragraph 12 above, that the two promised items are not customarily sold as a package for $325, and that the reporting entity were a charity instead. If the charity's advertised value of the donation per ticket ($175) were accepted by the Australian Taxation Office as the deductible gift recipient amount, the best estimate of the donation component would still be $175.

17 However, if the two promised items are not customarily sold as a package for $325, and there is no evidence to corroborate the advertised amount of the donation component, the best evidence of the amount of the donation would be determined by applying a residual approach that uses the stand-alone selling prices of $220 for the accommodation and $160 for the dinner. Accordingly, the donation component per ticket would be measured at $500 − $220 − $160 = $120.

Example 6: Fundraising Dinner – Stand-Alone Selling Price Not Directly Observable

This example is similar to that discussed in paragraphs 38 – 40 of Agenda Paper 13.2. The main difference is that it is assumed here, for simplicity, that the tickets for the event are non-refundable. The focus of this example (unlike that in paragraphs 38 – 40 of Agenda Paper 13.2) is on how the entity estimates the amount of a donation component of a contract with a customer.

18 A not-for-profit entity with strong links in its local community holds an annual fundraising dinner that is one of the most important events on the social calendar. It sells tickets before the end of the reporting period; the event is held in the following reporting period. The dinner is held on the entity's own premises. The ticket price of $600 per head does not include drinks. Based on the menu, the retail price of the meal that would be charged by a local restaurant would be approximately $125 per head.

19 The not-for-profit entity considers that its obligation to provide the event would not be faithfully represented if measured at the retail price of a meal. In addition, it considers that, consistent with the advertised fundraising nature of the dinner, each sale includes a donation component. The not-for-profit entity does not sell the promised goods and services separately in similar circumstances and to similar customers. Therefore, it refers to the prices that local function venues charge for social functions including a similar menu. Based on that evidence, the not-for-profit entity estimates the stand-alone selling

price of the promised goods and services (the measure of its contract liability) at $350 per head. Accordingly, the not-for-profit entity would measure the donation component as being $250 per ticket.

Example 7: Financial Asset and Financial Liability

20 A charity receives ten-year government bonds with a fair value of $20,000 from a supporter in return for an obligation to pay $10,000 in five years' time and annual interest payments at a rate of 4% per year, which is below the market rate of 6% per year.

21 The fair value of the financial liability at the inception of the arrangement, determined on the basis of a Level 1 input, is $9,160, being the present value of $10,000 payable in five years, and the scheduled $400 annual interest payments, at 6% per year. In accordance with the requirements of AASB 9, the financial liability is recognised at fair value. (Any transaction costs are ignored in this example.)

22 In the reporting period in which the transaction takes place, the charity recognises the government bonds (a financial asset) at the fair value of $20,000, a financial liability at its fair value of $9,160 and income of $10,840 (the fair value of the donation).