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AASB Exposure Draft **ED XX**
XX 2015

Income from Transactions of Not-for-Profit Entities

Comments to the AASB by XX Month 2015

BOARD MEETING DRAFT

Australian Government
Australian Accounting Standards Board

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by XX Month 2015. Comments should be addressed to:

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All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

While comments may be lodged by email or by post, email lodgement is preferred. To enable the submissions to be accessible to all users of the website, including those with disabilities, please submit comments via email in an accessible Word format. An additional accessible and unsecured PDF version may also be submitted.

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[***TO BE PREPARED***]

[Draft] Australian Accounting Standard AASB 10XX *Income from Transactions of Not-for-Profit Entities* is set out in paragraphs 1 – Aus129.18 and Appendices A – E. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. [Draft] AASB 10XX is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

(a) entities required by the *Corporations Act 2001* to prepare financial reports;

(b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and

(c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

(d) Tier 1: Australian Accounting Standards; and

(e) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Publicly accountable for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs. Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

Tier 2 requirements comprise the recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian

Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. These requirements do not prevent publicly accountable for-profit private sector entities from complying with IFRSs. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Reasons for Issuing this Exposure Draft

The AASB issued AASB 15 *Revenue from Contracts with Customers* in December 2014. AASB 15 supersedes AASB 111 *Revenue*, AASB 111 *Construction Contracts* and various Interpretations. Presently, AASB 15 does not apply to 'contributions' to not-for-profit entities, which are subject to AASB 1004 *Contributions*. Contributions are defined in AASB 1004 as 'non-reciprocal transfers to the entity'.

This Exposure Draft (ED) proposes requirements for all income of not-for-profit entities, subject to the limited scope exclusions mentioned below. It proposes that not-for-profit entities would account for all of their revenue from contracts with customers in accordance with AASB 15, regardless of whether the transactions involve 'reciprocal' or 'non-reciprocal' transfers, and includes proposed Australian Implementation Guidance that would complement the requirements of AASB 15. The AASB's aim is to require the principles of AASB 15 to be applied in a transaction neutral manner by all Australian entities preparing general purpose financial statements, regardless of the sector in which they operate. This Exposure Draft includes proposed guidance to help not-for-profit entities apply the principles of AASB 15.

This Exposure Draft (ED) also proposes recognition and disclosure requirements for income of not-for-profit entities that is not revenue from a contract with a customer (see below the Main Features of this Exposure Draft).

The above-mentioned proposed requirements would, with the limited exceptions noted below, replace the recognition and disclosure requirements for income in AASB 1004 *Contributions*. These proposals result from a fundamental review of AASB 1004 by the AASB to:

(a) address concerns expressed by constituents that in many circumstances the requirements of that Standard result in premature recognition of income, particularly when contributions (such as conditional 'non-reciprocal' grants) give rise to obligations to provide specified goods or services; and

(b) reflect the AASB's view that the principles for recognition of income from transactions of not-for-profit entities should be consistent with revenue recognition principles applying to for-profit entities.

This Exposure Draft is broadly composed of:

(a) the unamended text of AASB 15, which is repeated in this Exposure Draft to give context to the not-for-profit-entity-specific text identified in (b) below (the AASB is not seeking comment generally on the principles in AASB 15 – comment was obtained through AASB ED 222 *Revenue from Contracts with Customers*, which closed for comment on 9 February 2012); and

(b) paragraphs Aus129.1-Aus129.18, and Appendix E, which set out the proposed not-for-profit-entity-specific requirements that complement AASB 15. In addition, proposed not-for-profit-entity-specific definitions are set out in Appendix A, and proposed consequential amendments to other Standards are set out in Appendix D.

A Basis for Conclusions and proposed Australian Illustrative Examples accompany the [draft] Standard.

Although the text of AASB 15 is included in this Exposure Draft, the AASB has not decided yet whether the Standard developed from this Exposure Draft would be set out as an Amending Standard. One option for the AASB is to issue a separate Standard that is cross-referenced by AASB 15. At this stage, the AASB considers it is most informative to readers to present the proposals in an integrated manner that shows clearly the proposed transaction-neutral approach to income recognition and disclosure by not-for-profit entities.

Scope exclusions

The [draft] Standard would not apply to income that is within the scope of other Standards (for example, revenue from dividends, and from changes in the value of biological assets, investment properties and the inventory of commodity broker-traders).

Some requirements of AASB 1004 (namely, those regarding liabilities of government departments assumed by other entities, the recognition of distributions to owners, restructures of administrative arrangements and disclosure by government departments of compliance with parliamentary appropriations and other externally-imposed requirements) are not proposed to be replaced at this stage.

For-profit entities

For-profit entities would continue to apply AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. Other income of for-profit entities that does not arise from contracts with customers would continue to be accounted for in accordance with Standards specifically applying to the transactions or events; where a Standard does not specifically apply, the for-profit entity would adopt an appropriate accounting policy in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Main Features of this Exposure Draft

Revenue from contracts with customers

This Exposure Draft proposes that the timing of revenue recognition by a not-for-profit entity in relation to a transaction should be based on whether:

(a) the transaction occurs in a contract (that is, an agreement with another party that creates enforceable rights and obligations); and, if so,

(b) whether the contract includes performance obligations (which are promises by the entity to transfer goods or services to the other party to the contract, that is, the customer).

When (a) and (b) above are met, the not-for-profit entity would recognise revenue when (or as) it satisfies each performance obligation by transferring a promised good or service to the customer (which occurs when the customer obtains control of that good or service).

The amount of revenue recognised when a performance obligation is satisfied would be the transaction price (that is, the amount of consideration from the customer to which the entity expects to be entitled in exchange for transferring the promised good or service to the customer). When consideration from a customer is recognised as an asset in advance of satisfying the related performance obligation, the amount of that consideration is recognised as a contract liability.

Paragraphs 9-129 of AASB 15 *Revenue from Contracts with Customers* are repeated in this [draft] Standard for context. This Exposure Draft does not propose any not-for-profit entity modifications of paragraphs 9-129 of AASB 15.

Australian Implementation Guidance

Appendix E of the [draft] Standard includes proposed Australian Implementation Guidance that would, for not-for-profit entities, complement paragraphs 9-129 of AASB 15. It includes:

(a) proposed clarification in a not-for-profit entity context of some terminology in AASB 15;

(b) proposed guidance in a not-for-profit entity context on when an agreement with another party creates enforceable rights and obligations; and

(c) proposed guidance in a not-for-profit entity context on when a promise to transfer a good or a service is stipulated in sufficient detail to be able to determine when the performance obligation is satisfied.

If a not-for-profit entity promises to transfer a good or service to another party, but not as part of an agreement that creates enforceable rights and obligations, or if the promise is not stipulated in sufficient detail to be able to determine when the performance obligation is satisfied, the promise is not accounted for as a performance obligation. Consequently, any inflow of assets related to that promise does not give rise to a revenue from a contract with a customer. It would be accounted for as other income, the proposed requirements for which are mentioned briefly further below.

Separately identifiable donation component of a contract with a customer

Some customers of not-for-profit entities enter contracts with the dual purposes of obtaining goods or services and donating resources to help the not-for-profit entity achieve its mission. A donation component of a contract with a customer is an amount of consideration that is not attributable to the goods or services promised by the entity to its customer.

The [draft] Standard proposes requiring a separately identifiable donation component of a contract with a customer to be accounted for separately from the revenue from transferring promised goods or services to the customer, and recognised as donation income as at the date the entity recognises the inflow(s) of asset(s) embodying the donation component. Consequently, the separately identifiable donation component would be excluded from the transaction price for the goods or services promised in the contract.

Other income

Paragraphs Aus129.1-Aus129.18 of the [draft] Standard and paragraphs IG33-IG94 of Appendix E set out proposed recognition and disclosure requirements for income of not-for-profit entities that is not revenue from a contract with a customer. Such income would arise when the not-for-profit entity:

(a) recognises a transferred asset that is initially measured at an amount exceeding the initial carrying amount of any resulting liability to the transferor; or

(b) has a liability (or part of a liability) that is settled, forgiven or transferred to another party and the carrying amount of that liability (or part of the liability) exceeds the amount of any consideration paid by the not-for-profit entity upon that settlement, forgiveness or transfer.

The circumstances in (a) and (b) above exclude transactions that are contributions by owners (see paragraphs IG95-IG99 of Appendix E).

The items of income in (a) and (b) would be revenue (other than revenue from contracts with customers) if they arise in the course of the entity's ordinary activities.

If income related to an inflow of assets does not arise from transferring a promised good or service to a customer, the timing of recognition of that income would depend on when the asset giving rise to that income is recognised. Appendix E provides guidance for not-for-profit entities on when assets are recognised, including guidance on when control of assets is obtained for some transaction types that are specific to not-for-profit entities.

Appendix E also includes proposed Australian Implementation Guidance on accounting for transactions that do not occur in contracts with customers and commonly occur in the not-for-profit sector [for example, donations (including volunteer services), taxes and fines, and 'advance receipts' of taxes and transfers]. Tax income is identified as arising from 'taxable events' (for example, the earning of taxable income by taxpayers) – this term is used because 'taxable events' are not transactions.

Application Date

It is proposed that this Standard be applicable to annual reporting periods beginning on or after 1 January 2017 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005.

GAAP/GFS Implications

The Australian Bureau of Statistics (ABS) is in the process of revising its Government Finance Statistics (GFS) Manual. The ABS expects to issue its revised GFS Manual before the proposed effective date of the proposals in this Exposure Draft (annual reporting periods beginning on or after 1 January 2017). The ABS intends to base its revised GFS Manual on the revised International Monetary Fund (IMF) GFS Manual, which has yet to be published.[1] Accordingly, the GAAP/GFS harmonisation implications of the proposals in this Exposure Draft are based on a comparison of those proposals with the pre-publication draft of the revised IMF GFS Manual (Draft IMF Manual) issued in March 2014. Those GAAP/GFS harmonisation implications are noted below. None of them suggest a fundamental GAAP/GFS difference would arise.

The Draft IMF Manual states that, if governments receive cash amounts before having an unconditional claim on them (such as when they receive advances for the future provision of goods and services, and grants for the construction of fixed assets over several periods), these cash receipts cannot be recognised as revenue until the government acquires the unconditional claim on the amount. Under the [draft] Standard, an entity would recognise revenue (or other income) immediately if it receives cash amounts that are subject to stipulations but those stipulations are not sufficiently specific to be identified as performance obligations. Therefore, under the [draft] Standard, transfers may be recognised as revenue (or other income) immediately in some circumstances without the entity having an unconditional claim on the transferred asset (for example, stipulations may apply to *when* cash amounts received are to be spent, without applying to *how* those amounts are to be spent).

The term 'transfers' in the Draft IMF Manual has a different meaning in Australian Accounting Standards. This difference in meaning should not cause GAAP/GFS harmonisation differences, and is noted here for clarification. Specifically, in the Draft IMF Manual, 'transfers' refer to non-exchange transactions. This [draft] Standard does not distinguish 'exchange' and 'non-exchange' transactions, and refers to transfers in relation to transfers of goods or services to customers, in addition to voluntary and compulsory transfers to the entity that are not contracts with customers.

This topic is the subject of Question 8 in the Specific Matters for Comment.

[1] The ABS intends differing from the revised IMF GFS Manual in some respects, but these intended differences relate to issues outside the scope of this Exposure Draft.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by XX Month 2015. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue.

ACCOUNTING STANDARD AASB 10XX

INCOME FROM TRANSACTIONS OF NOT-FOR-PROFIT ENTITIES

This [draft] Standard repeats verbatim the text of AASB 15 Revenue from Contracts with Customers*, and includes the AASB's proposed not-for-profit-entity-specific modifications to that Standard.*

Objective

1 The objective of this [draft] Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of *revenue* and cash flows arising from a *contract* with a *customer.*

Meeting the objective

2 To meet the objective in paragraph 1, the core principle of this [draft] Standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

3 An entity shall consider the terms of the contract and all relevant facts and circumstances when applying this [draft] Standard. An entity shall apply this [draft] Standard, including the use of any practical expedients, consistently to contracts with similar characteristics and in similar circumstances.

4 This [draft] Standard specifies the accounting for an individual contract with a customer. However, as a practical expedient, an entity may apply this [draft] Standard to a portfolio of contracts (or *performance obligations*) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this [draft] Standard to the portfolio would not differ materially from applying this [draft] Standard to the individual contracts (or performance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Application

Aus4.1 This [draft] Standard applies to:

(a) each not-for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;

(b) general purpose financial statements of each other not-for-profit entity that is a reporting entity; and

(c) financial statements of not-for-profit entities that are, or are held out to be, general purpose financial statements.

Aus4.2 This [draft] Standard applies to annual reporting periods beginning on or after 1 January 2017.

Aus4.3 This [draft] Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2017. When an entity applies this [draft] Standard to such an annual reporting period, it shall disclose that fact.

Aus4.4 When applied or operative, this [draft] Standard supersedes AASB 15 *Revenue from Contracts with Customers*.

Reduced disclosure requirements

Aus4.5 The following do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements:

(a) paragraphs 115, 116(b), 116(c), 117, 118, 120–122, 124(b), 126, 127(a); and

(b) in paragraph 128(a), the text ", by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and setup costs)".

Entities applying Australian Accounting Standards – Reduced Disclosure Requirements may elect to comply with some or all of these excluded requirements.

Aus4.6 The requirements that do not apply to entities preparing general purpose financial statements under Australian Accounting

Standards – Reduced Disclosure Requirements are identified in this Standard by shading of the relevant text.

Commencement

Aus4.7 This [draft] Standard commences on the day this [draft] Standard is made by the Australian Accounting Standards Board.

Scope

5 An entity shall apply this [draft] Standard to all contracts with customers, except the following:

(a) lease contracts within the scope of AASB 117 *Leases*;

(b) insurance contracts within the scope of AASB 4 *Insurance Contracts*;

(c) financial instruments and other contractual rights or obligations within the scope of AASB 9 *Financial Instruments*, AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures*; and

(d) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this [draft] Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.

Aus5.1 Subject to paragraphs 5 and Aus5.2, a not-for-profit entity shall also apply this [draft] Standard to other transactions or *taxable events* that involve an inflow of resources to the entity; or a settlement, forgiveness or transfer to another party of a liability of the entity.

Aus5.2 This [draft] Standard does not apply to transactions or taxable events that give rise to income recognised under the requirements of another Australian Accounting Standard (for example, it does not apply to transactions accounted for under AASB 9 *Financial Instruments*).

6 An entity shall apply this Standard to a contract (other than a contract listed in paragraph 5) only if the counterparty to the contract is a

customer. A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. A counterparty to the contract would not be a customer if, for example, the counterparty has contracted with the entity to participate in an activity or process in which the parties to the contract share in the risks and benefits that result from the activity or process (such as developing an asset in a collaboration arrangement) rather than to obtain the output of the entity's ordinary activities.

7 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 the separation and/or measurement requirements in those Standards. An entity shall exclude from the *transaction price* the amount of the part (or parts) of the contract that are initially measured in accordance with other Standards and shall apply paragraphs 73–86 to allocate the amount of the transaction price that remains (if any) to each performance obligation within the scope of this Standard and to any other parts of the contract identified by paragraph 7(b).

(b) If the other Standards do not specify how to separate and/or initially measure one or more parts of the contract, then the entity shall apply this Standard to separate and/or initially measure the part (or parts) of the contract.

8 This Standard specifies the accounting for the incremental costs of obtaining a contract with a customer and for the costs incurred to fulfil a contract with a customer if those costs are not within the scope of another Standard (see paragraphs 91–104). An entity shall apply those paragraphs only to the costs incurred that relate to a contract with a customer (or part of that contract) that is within the scope of this Standard.

Recognition

Identifying the contract

9 An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

(a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;

(b) the entity can identify each party's rights regarding the goods or services to be transferred;

(c) the entity can identify the payment terms for the goods or services to be transferred;

(d) the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and

(e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession (see paragraph 52).

10 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. Contracts can be written, oral or implied by an entity's customary business practices. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a customer creates enforceable rights and obligations.

11 Some contracts with customers may have no fixed duration and can be terminated or modified by either party at any time. Other contracts may automatically renew on a periodic basis that is specified in the contract. An entity shall apply this Standard to the duration of the contract (ie the contractual period) in which the parties to the contract have present enforceable rights and obligations.

12 For the purpose of applying this Standard, a contract does not exist if each party to the contract has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party (or parties). A contract is wholly unperformed if both of the following criteria are met:

(a) the entity has not yet transferred any promised goods or services to the customer; and

(b) the entity has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.

13 If a contract with a customer meets the criteria in paragraph 9 at contract inception, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a customer's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled in exchange for the remaining goods or services that will be transferred to the customer.

14 If a contract with a customer does not meet the criteria in paragraph 9, an entity shall continue to assess the contract to determine whether the criteria in paragraph 9 are subsequently met.

15 When a contract with a customer does not meet the criteria in paragraph 9 and an entity receives consideration from the customer, the entity shall recognise the consideration received as revenue only when either of the following events has occurred:

(a) the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or

(b) the contract has been terminated and the consideration received from the customer is non-refundable.

16 An entity shall recognise the consideration received from a customer as a liability until one of the events in paragraph 15 occurs or until the

criteria in paragraph 9 are subsequently met (see paragraph 14). Depending on the facts and circumstances relating to the contract, the liability recognised represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability shall be measured at the amount of consideration received from the customer.

Combination of contracts

17 An entity shall combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:

(a) the contracts are negotiated as a package with a single commercial objective;

(b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or

(c) the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation in accordance with paragraphs 22–30.

Contract modifications

18 A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. In some industries and jurisdictions, a contract modification may be described as a change order, a variation or an amendment. A contract modification exists when the parties to a contract approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the contract. A contract modification could be approved in writing, by oral agreement or implied by customary business practices. If the parties to the contract have not approved a contract modification, an entity shall continue to apply this Standard to the existing contract until the contract modification is approved.

19 A contract modification may exist even though the parties to the contract have a dispute about the scope or price (or both) of the modification or the parties have approved a change in the scope of the contract but have not yet determined the corresponding change in price. In determining whether the rights and obligations that are created or changed by a modification are enforceable, an entity shall consider all relevant facts and circumstances including the terms of the contract

and other evidence. If the parties to a contract have approved a change in the scope of the contract but have not yet determined the corresponding change in price, an entity shall estimate the change to the transaction price arising from the modification in accordance with paragraphs 50–54 on estimating variable consideration and paragraphs 56–58 on constraining estimates of variable consideration.

20 An entity shall account for a contract modification as a separate contract if both of the following conditions are present:

(a) the scope of the contract increases because of the addition of promised goods or services that are distinct (in accordance with paragraphs 26–30); and

(b) the price of the contract increases by an amount of consideration that reflects the entity's *stand-alone selling prices* of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract. For example, an entity may adjust the stand-alone selling price of an additional good or service for a discount that the customer receives, because it is not necessary for the entity to incur the selling-related costs that it would incur when selling a similar good or service to a new customer.

21 If a contract modification is not accounted for as a separate contract in accordance with paragraph 20, an entity shall account for the promised goods or services not yet transferred at the date of the contract modification (ie the remaining promised goods or services) in whichever of the following ways is applicable:

(a) An entity shall account for the contract modification as if it were a termination of the existing contract and the creation of a new contract, if the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining distinct goods or services in a single performance obligation identified in accordance with paragraph 22(b)) is the sum of:

(i) the consideration promised by the customer (including amounts already received from the customer) that was included in the estimate of the transaction price and that had not been recognised as revenue; and

(ii) the consideration promised as part of the contract modification.

(b) An entity shall account for the contract modification as if it were a part of the existing contract if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the contract modification. The effect that the contract modification has on the transaction price, and on the entity's measure of progress towards complete satisfaction of the performance obligation, is recognised as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the contract modification (ie the adjustment to revenue is made on a cumulative catch-up basis).

(c) If the remaining goods or services are a combination of items (a) and (b), then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified contract in a manner that is consistent with the objectives of this paragraph.

Identifying performance obligations

22 At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (see paragraph 23).

23 A series of distinct goods or services has the same pattern of transfer to the customer if both of the following criteria are met:

(a) each distinct good or service in the series that the entity promises to transfer to the customer would meet the criteria in paragraph 35 to be a performance obligation satisfied over time; and

(b) in accordance with paragraphs 39–40, the same method would be used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

Promises in contracts with customers

24 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.

25 Performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer. For example, a services provider may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the customer as the tasks are performed. Therefore, those setup activities are not a performance obligation.

Distinct goods or services

26 Depending on the contract, promised goods or services may include, but are not limited to, the following:

(a) sale of goods produced by an entity (for example, inventory of a manufacturer);

(b) resale of goods purchased by an entity (for example, merchandise of a retailer);

(c) resale of rights to goods or services purchased by an entity (for example, a ticket resold by an entity acting as a principal, as described in paragraphs B34–B38);

(d) performing a contractually agreed-upon task (or tasks) for a customer;

(e) providing a service of standing ready to provide goods or services (for example, unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides;

(f) providing a service of arranging for another party to transfer goods or services to a customer (for example, acting as an agent of another party, as described in paragraphs B34–B38);

(g) granting rights to goods or services to be provided in the future that a customer can resell or provide to its customer (for example, an entity selling a product to a retailer promises to transfer an additional good or service to an individual who purchases the product from the retailer);

(h) constructing, manufacturing or developing an asset on behalf of a customer;

(i) granting licences (see paragraphs B52–B63); and

(j) granting options to purchase additional goods or services (when those options provide a customer with a material right, as described in paragraphs B39–B43).

27 A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and

(b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the good or service is distinct within the context of the contract).

28 A customer can benefit from a good or service in accordance with paragraph 27(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits. For some goods or services, a customer may be able to benefit from a good or service on its own. For other goods or services, a customer may be able to benefit from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract) or from other transactions or events. Various factors may provide evidence that the customer can benefit from a good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.

29 Factors that indicate that an entity's promise to transfer a good or service to a customer is separately identifiable (in accordance with paragraph 27(b)) include, but are not limited to, the following:

(a) the entity does not provide a significant service of integrating the good or service with other goods or services promised in the contract into a bundle of goods or services that represent the combined output for which the customer has contracted. In other words, the entity is not using the good or service as an input to produce or deliver the combined output specified by the customer.

(b) the good or service does not significantly modify or customise another good or service promised in the contract.

(c) the good or service is not highly dependent on, or highly interrelated with, other goods or services promised in the contract. For example, the fact that a customer could decide to not purchase the good or service without significantly affecting the other promised goods or services in the contract might indicate that the good or service is not highly dependent on, or highly interrelated with, those other promised goods or services.

30 If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.

Satisfaction of performance obligations

31 An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

32 For each performance obligation identified in accordance with paragraphs 22–30, an entity shall determine at contract inception whether it satisfies the performance obligation over time (in accordance with paragraphs 35–37) or satisfies the performance obligation at a point in time (in accordance with paragraph 38). If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

33 Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of

the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly in many ways, such as by:

(a) using the asset to produce goods or provide services (including public services);

(b) using the asset to enhance the value of other assets;

(c) using the asset to settle liabilities or reduce expenses;

(d) selling or exchanging the asset;

(e) pledging the asset to secure a loan; and

(f) holding the asset.

34 When evaluating whether a customer obtains control of an asset, an entity shall consider any agreement to repurchase the asset (see paragraphs B64–B76).

Performance obligations satisfied over time

35 An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see paragraphs B3–B4);

(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or

(c) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date (see paragraph 37).

36 An asset created by an entity's performance does not have an alternative use to an entity if the entity is either restricted contractually from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of

whether an asset has an alternative use to the entity is made at contract inception. After contract inception, an entity shall not update the assessment of the alternative use of an asset unless the parties to the contract approve a contract modification that substantively changes the performance obligation. Paragraphs B6–B8 provide guidance for assessing whether an asset has an alternative use to an entity.

37 An entity shall consider the terms of the contract, as well as any laws that apply to the contract, when evaluating whether it has an enforceable right to payment for performance completed to date in accordance with paragraph 35(c). The right to payment for performance completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the contract, the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the contract is terminated by the customer or another party for reasons other than the entity's failure to perform as promised. Paragraphs B9–B13 provide guidance for assessing the existence and enforceability of a right to payment and whether an entity's right to payment would entitle the entity to be paid for its performance completed to date.

Performance obligations satisfied at a point in time

38 If a performance obligation is not satisfied over time in accordance with paragraphs 35–37, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the requirements for control in paragraphs 31–34. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

(a) The entity has a present right to payment for the asset—if a customer is presently obliged to pay for an asset, then that may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset in exchange.

(b) The customer has legal title to the asset—legal title may indicate which party to a contract has the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset or to restrict the access of other entities to those benefits. Therefore, the transfer of legal title of an asset may indicate that the customer has obtained control of the asset. If an entity retains legal title solely as protection against the customer's failure to pay, those rights of the entity would not preclude the customer from obtaining control of an asset.

(c) The entity has transferred physical possession of the asset—the customer's physical possession of an asset may indicate that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a customer or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the customer controls. Paragraphs B64–B76, B77–B78 and B79–B82 provide guidance on accounting for repurchase agreements, consignment arrangements and bill-and-hold arrangements, respectively.

(d) The customer has the significant risks and rewards of ownership of the asset—the transfer of the significant risks and rewards of ownership of an asset to the customer may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a customer but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.

(e) The customer has accepted the asset—the customer's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. To evaluate the effect of a contractual customer acceptance clause on when control of an asset is transferred, an entity shall consider the guidance in paragraphs B83–B86.

Measuring progress towards complete satisfaction of a performance obligation

39 For each performance obligation satisfied over time in accordance with paragraphs 35–37, an entity shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a customer (ie the satisfaction of an entity's performance obligation).

40 An entity shall apply a single method of measuring progress for each performance obligation satisfied over time and the entity shall apply that method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a performance obligation satisfied over time.

Methods for measuring progress

41 Appropriate methods of measuring progress include output methods and input methods. Paragraphs B14–B19 provide guidance for using output methods and input methods to measure an entity's progress towards complete satisfaction of a performance obligation. In determining the appropriate method for measuring progress, an entity shall consider the nature of the good or service that the entity promised to transfer to the customer.

42 When applying a method for measuring progress, an entity shall exclude from the measure of progress any goods or services for which the entity does not transfer control to a customer. Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to a customer when satisfying that performance obligation.

43 As circumstances change over time, an entity shall update its measure of progress to reflect any changes in the outcome of the performance obligation. Such changes to an entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Reasonable measures of progress

44 An entity shall recognise revenue for a performance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the performance obligation. An entity would not be able to reasonably measure its progress towards complete satisfaction of a performance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.

45 In some circumstances (for example, in the early stages of a contract), an entity may not be able to reasonably measure the outcome of a performance obligation, but the entity expects to recover the costs incurred in satisfying the performance obligation. In those circumstances, the entity shall recognise revenue only to the extent of

the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

Measurement

46 When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 56–58) that is allocated to that performance obligation.

Determining the transaction price

47 An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

48 The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price. When determining the transaction price, an entity shall consider the effects of all of the following:

(a) variable consideration (see paragraphs 50–55 and 59);

(b) constraining estimates of variable consideration (see paragraphs 56–58);

(c) the existence of a significant financing component in the contract (see paragraphs 60–65);

(d) non-cash consideration (see paragraphs 66–69); and

(e) consideration payable to a customer (see paragraphs 70–72).

49 For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified.

Variable consideration

50 If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

51 An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was sold with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.

52 The variability relating to the consideration promised by a customer may be explicitly stated in the contract. In addition to the terms of the contract, the promised consideration is variable if either of the following circumstances exists:

(a) the customer has a valid expectation arising from an entity's customary business practices, published policies or specific statements that the entity will accept an amount of consideration that is less than the price stated in the contract. That is, it is expected that the entity will offer a price concession. Depending on the jurisdiction, industry or customer this offer may be referred to as a discount, rebate, refund or credit.

(b) other facts and circumstances indicate that the entity's intention, when entering into the contract with the customer, is to offer a price concession to the customer.

53 An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

(a) The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (ie the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

54 An entity shall apply one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration to which the entity will be entitled. In addition, an entity shall consider all the information (historical, current and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration would typically be similar to the information that the entity's management uses during the bid-and-proposal process and in establishing prices for promised goods or services.

Refund liabilities

55 An entity shall recognise a refund liability if the entity receives consideration from a customer and expects to refund some or all of that consideration to the customer. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (ie amounts not included in the transaction price). The refund liability (and corresponding change in the transaction price and, therefore, the *contract liability*) shall be updated at the end of each reporting period for changes in circumstances. To account for a refund liability relating to a sale with a right of return, an entity shall apply the guidance in paragraphs B20–B27.

Constraining estimates of variable consideration

56 An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 53 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

57 In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) the amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgement or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.

(b) the uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

(c) the entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value.

(d) the entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.

(e) the contract has a large number and broad range of possible consideration amounts.

58 An entity shall apply paragraph B63 to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a licence of intellectual property.

Reassessment of variable consideration

59 At the end of each reporting period, an entity shall update the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity shall account for changes in the transaction price in accordance with paragraphs 87–90.

The existence of a significant financing component in the contract

60 In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

61 The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognise revenue at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer (ie the cash selling price). An entity shall consider all relevant facts and circumstances in assessing whether a contract contains a financing component and whether that financing component is significant to the contract, including both of the following:

(a) the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services; and

(b) the combined effect of both of the following:

(i) the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services; and

(ii) the prevailing interest rates in the relevant market.

62 Notwithstanding the assessment in paragraph 61, a contract with a customer would not have a significant financing component if any of the following factors exist:

(a) the customer paid for the goods or services in advance and the timing of the transfer of those goods or services is at the discretion of the customer.

(b) a substantial amount of the consideration promised by the customer is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the entity (for example, if the consideration is a sales-based royalty).

(c) the difference between the promised consideration and the cash selling price of the good or service (as described in paragraph 61) arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the customer with protection from the other party failing to adequately complete some or all of its obligations under the contract.

63 As a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

64 To meet the objective in paragraph 61 when adjusting the promised amount of consideration for a significant financing component, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. That rate would reflect the credit characteristics of the party receiving financing in the contract, as well as any collateral or security provided by the customer or the entity, including assets transferred in the contract. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash for the goods or services when (or as) they transfer to the customer. After contract inception, an entity shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the customer's credit risk).

65 An entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from contracts with customers in the statement of comprehensive income. Interest revenue or interest expense is recognised only to the extent that a *contract asset* (or receivable) or a contract liability is recognised in accounting for a contract with a customer.

Non-cash consideration

66 To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value.

67 If an entity cannot reasonably estimate the fair value of the non-cash consideration, the entity shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

68 The fair value of the non-cash consideration may vary because of the form of the consideration (for example, a change in the price of a share to which an entity is entitled to receive from a customer). If the fair value of the non-cash consideration promised by a customer varies for reasons other than only the form of the consideration (for example, the

fair value could vary because of the entity’s performance), an entity shall apply the requirements in paragraphs 56–58.

69 If a customer contributes goods or services (for example, materials, equipment or labour) to facilitate an entity’s fulfilment of the contract, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the customer.

Consideration payable to a customer

70 Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity’s goods or services from the customer). Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity’s goods or services from the customer). An entity shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs 26–30) that the customer transfers to the entity. If the consideration payable to a customer includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 50–58.

71 If consideration payable to a customer is a payment for a distinct good or service from the customer, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it shall account for all of the consideration payable to the customer as a reduction of the transaction price.

72 Accordingly, if consideration payable to a customer is accounted for as a reduction of the transaction price, an entity shall recognise the reduction of revenue when (or as) the later of either of the following events occurs:

(a) the entity recognises revenue for the transfer of the related goods or services to the customer; and

(b) the entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices.

Allocating the transaction price to performance obligations

73 The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

74 To meet the allocation objective, an entity shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis in accordance with paragraphs 76–80, except as specified in paragraphs 81–83 (for allocating discounts) and paragraphs 84–86 (for allocating consideration that includes variable amounts).

75 Paragraphs 76–86 do not apply if a contract has only one performance obligation. However, paragraphs 84–86 may apply if an entity promises to transfer a series of distinct goods or services identified as a single performance obligation in accordance with paragraph 22(b) and the promised consideration includes variable amounts.

Allocation based on stand-alone selling prices

76 To allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, an entity shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

77 The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. A contractually stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone selling price of that good or service.

78 If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price at an amount that would result in the allocation of the transaction price meeting the allocation objective in paragraph 73. When estimating a stand-alone selling price, an entity shall consider all information (including market conditions, entity-

specific factors and information about the customer or class of customer) that is reasonably available to the entity. In doing so, an entity shall maximise the use of observable inputs and apply estimation methods consistently in similar circumstances.

79 Suitable methods for estimating the stand-alone selling price of a good or service include, but are not limited to, the following:

(a) Adjusted market assessment approach—an entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the entity's competitors for similar goods or services and adjusting those prices as necessary to reflect the entity's costs and margins.

(b) Expected cost plus a margin approach—an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service.

(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).

80 A combination of methods may need to be used to estimate the stand-alone selling prices of the goods or services promised in the contract if two or more of those goods or services have highly variable or uncertain stand-alone selling prices. For example, an entity may use a residual approach to estimate the aggregate stand-alone selling price for those promised goods or services with highly variable or uncertain stand-alone selling prices and then use another method to estimate the stand-alone selling prices of the individual goods or services relative to

that estimated aggregate stand-alone selling price determined by the residual approach. When an entity uses a combination of methods to estimate the stand-alone selling price of each promised good or service in the contract, the entity shall evaluate whether allocating the transaction price at those estimated stand-alone selling prices would be consistent with the allocation objective in paragraph 73 and the requirements for estimating stand-alone selling prices in paragraph 78.

Allocation of a discount

81 A customer receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone selling prices of those promised goods or services in the contract exceeds the promised consideration in a contract. Except when an entity has observable evidence in accordance with paragraph 82 that the entire discount relates to only one or more, but not all, performance obligations in a contract, the entity shall allocate a discount proportionately to all performance obligations in the contract. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of the underlying distinct goods or services.

82 An entity shall allocate a discount entirely to one or more, but not all, performance obligations in the contract if all of the following criteria are met:

(a) the entity regularly sells each distinct good or service (or each bundle of distinct goods or services) in the contract on a stand-alone basis;

(b) the entity also regularly sells on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone selling prices of the goods or services in each bundle; and

(c) the discount attributable to each bundle of goods or services described in paragraph 82(b) is substantially the same as the discount in the contract and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the contract belongs.

83 If a discount is allocated entirely to one or more performance obligations in the contract in accordance with paragraph 82, an entity shall allocate the discount before using the residual approach to

estimate the stand-alone selling price of a good or service in accordance with paragraph 79(c).

Allocation of variable consideration

84 Variable consideration that is promised in a contract may be attributable to the entire contract or to a specific part of the contract, such as either of the following:

(a) one or more, but not all, performance obligations in the contract (for example, a bonus may be contingent on an entity transferring a promised good or service within a specified period of time); or

(b) one or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation in accordance with paragraph 22(b) (for example, the consideration promised for the second year of a two-year cleaning service contract will increase on the basis of movements in a specified inflation index).

85 An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation in accordance with paragraph 22(b) if both of the following criteria are met:

(a) the terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service); and

(b) allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the allocation objective in paragraph 73 when considering all of the performance obligations and payment terms in the contract.

86 The allocation requirements in paragraphs 73–83 shall be applied to allocate the remaining amount of the transaction price that does not meet the criteria in paragraph 85.

Changes in the transaction price

87 After contract inception, the transaction price can change for various reasons, including the resolution of uncertain events or other changes

in circumstances that change the amount of consideration to which an entity expects to be entitled in exchange for the promised goods or services.

88 An entity shall allocate to the performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception. Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

89 An entity shall allocate a change in the transaction price entirely to one or more, but not all, performance obligations or distinct goods or services promised in a series that forms part of a single performance obligation in accordance with paragraph 22(b) only if the criteria in paragraph 85 on allocating variable consideration are met.

90 An entity shall account for a change in the transaction price that arises as a result of a contract modification in accordance with paragraphs 18–21. However, for a change in the transaction price that occurs after a contract modification, an entity shall apply paragraphs 87–89 to allocate the change in the transaction price in whichever of the following ways is applicable:

(a) An entity shall allocate the change in the transaction price to the performance obligations identified in the contract before the modification if, and to the extent that, the change in the transaction price is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph 21(a).

(b) In all other cases in which the modification was not accounted for as a separate contract in accordance with paragraph 20, an entity shall allocate the change in the transaction price to the performance obligations in the modified contract (ie the performance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

Contract costs

Incremental costs of obtaining a contract

91 An entity shall recognise as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs.

92 The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, a sales commission).

93 Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

94 As a practical expedient, an entity may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

Costs to fulfil a contract

95 If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, AASB 102 *Inventories*, AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*), an entity shall recognise an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved);

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

96 For costs incurred in fulfilling a contract with a customer that are within the scope of another Standard, an entity shall account for those costs in accordance with those other Standards.

97 Costs that relate directly to a contract (or a specific anticipated contract) include any of the following:

(a) direct labour (for example, salaries and wages of employees who provide the promised services directly to the customer);

(b) direct materials (for example, supplies used in providing the promised services to a customer);

(c) allocations of costs that relate directly to the contract or to contract activities (for example, costs of contract management and supervision, insurance and depreciation of tools and equipment used in fulfilling the contract);

(d) costs that are explicitly chargeable to the customer under the contract; and

(e) other costs that are incurred only because an entity entered into the contract (for example, payments to subcontractors).

98 An entity shall recognise the following costs as expenses when incurred:

(a) general and administrative costs (unless those costs are explicitly chargeable to the customer under the contract, in which case an entity shall evaluate those costs in accordance with paragraph 97);

(b) costs of wasted materials, labour or other resources to fulfil the contract that were not reflected in the price of the contract;

(c) costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract (ie costs that relate to past performance); and

(d) costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations).

Amortisation and impairment

99 An asset recognised in accordance with paragraph 91 or 95 shall be amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The asset may relate to goods or services to be transferred under a specific anticipated contract (as described in paragraph 95(a)).

100 An entity shall update the amortisation to reflect a significant change in the entity's expected timing of transfer to the customer of the goods or services to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with AASB 108.

101 An entity shall recognise an impairment loss in profit or loss to the extent that the carrying amount of an asset recognised in accordance with paragraph 91 or 95 exceeds:

(a) the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates; less

(b) the costs that relate directly to providing those goods or services and that have not been recognised as expenses (see paragraph 97).

102 For the purposes of applying paragraph 101 to determine the amount of consideration that an entity expects to receive, an entity shall use the principles for determining the transaction price (except for the requirements in paragraphs 56–58 on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the customer's credit risk.

103 Before an entity recognises an impairment loss for an asset recognised in accordance with paragraph 91 or 95, the entity shall recognise any impairment loss for assets related to the contract that are recognised in accordance with another Standard (for example, AASB 102, AASB 116 and AASB 138). After applying the impairment test in paragraph 101, an entity shall include the resulting carrying amount of the asset recognised in accordance with paragraph 91 or 95 in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying AASB 136 *Impairment of Assets* to that cash-generating unit.

104 An entity shall recognise in profit or loss a reversal of some or all of an impairment loss previously recognised in accordance with paragraph 101 when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed

the amount that would have been determined (net of amortisation) if no impairment loss had been recognised previously.

Presentation

105 When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. An entity shall present any unconditional rights to consideration separately as a receivable.

106 If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (ie a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

107 If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. An entity shall assess a contract asset for impairment in accordance with AASB 9. An impairment of a contract asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of AASB 9 (see also paragraph 113(b)).

108 A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognise a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with AASB 9. Upon initial recognition of a receivable from a contract with a customer, any difference between the measurement of the receivable in accordance with AASB 9 and the corresponding amount of revenue recognised shall be presented as an expense (for example, as an impairment loss).

109 This Standard uses the terms 'contract asset' and 'contract liability' but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an

alternative description for a contract asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and contract assets.

Disclosure

110 The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

(a) its contracts with customers (see paragraphs 113–122);

(b) the significant judgements, and changes in the judgements, made in applying this Standard to those contracts (see paragraphs 123–126); and

(c) any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraph 91 or 95 (see paragraphs 127–128).

111 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

112 An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

Contracts with customers

113 An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of comprehensive income in accordance with other Standards:

(a) revenue recognised from contracts with customers, which the entity shall disclose separately from its other sources of revenue; and

(b) any impairment losses recognised (in accordance with AASB 9) on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts.

Disaggregation of revenue

114 An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87–B89 when selecting the categories to use to disaggregate revenue.

115 In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 114) and revenue information that is disclosed for each reportable segment, if the entity applies AASB 8 *Operating Segments*.

Contract balances

116 An entity shall disclose all of the following:

(a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;

(b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and

(c) revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).

117 An entity shall explain how the timing of satisfaction of its performance obligations (see paragraph 119(a)) relates to the typical timing of payment (see paragraph 119(b)) and the effect that those factors have on the contract asset and the contract liability balances. The explanation provided may use qualitative information.

118 An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of contract assets and contract liabilities include any of the following:

(a) changes due to business combinations;

(b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification;

(c) impairment of a contract asset;

(d) a change in the time frame for a right to consideration to become unconditional (ie for a contract asset to be reclassified to a receivable); and

(e) a change in the time frame for a performance obligation to be satisfied (ie for the recognition of revenue arising from a contract liability).

Performance obligations

119 An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following:

(a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement;

(b) the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56–58);

(c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent);

(d) obligations for returns, refunds and other similar obligations; and

(e) types of warranties and related obligations.

Transaction price allocated to the remaining performance obligations

120 An entity shall disclose the following information about its remaining performance obligations:

(a) the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

(b) an explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 120(a), which the entity shall disclose in either of the following ways:

(i) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations; or

(ii) by using qualitative information.

121 As a practical expedient, an entity need not disclose the information in paragraph 120 for a performance obligation if either of the following conditions is met:

(a) the performance obligation is part of a contract that has an original expected duration of one year or less; or

(b) the entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16.

122 An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 121 and whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 120. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 56–58).

Significant judgements in the application of this Standard

123 An entity shall disclose the judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. In particular, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following:

(a) the timing of satisfaction of performance obligations (see paragraphs 124–125); and

(b) the transaction price and the amounts allocated to performance obligations (see paragraph 126).

Determining the timing of satisfaction of performance obligations

124 For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

(a) the methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied); and

(b) an explanation of why the methods used provide a faithful depiction of the transfer of goods or services.

125 For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.

Determining the transaction price and the amounts allocated to performance obligations

126 An entity shall disclose information about the methods, inputs and assumptions used for all of the following:

(a) determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;

(b) assessing whether an estimate of variable consideration is constrained;

(c) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable); and

(d) measuring obligations for returns, refunds and other similar obligations.

Assets recognised from the costs to obtain or fulfil a contract with a customer

127 An entity shall describe both of the following:

(a) the judgements made in determining the amount of the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95); and

(b) the method it uses to determine the amortisation for each reporting period.

128 An entity shall disclose all of the following:

(a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and setup costs); and

(b) the amount of amortisation and any impairment losses recognised in the reporting period.

Practical expedients

129 If an entity elects to use the practical expedient in either paragraph 63 (about the existence of a significant financing component) or paragraph 94 (about the incremental costs of obtaining a contract), the entity shall disclose that fact.

Recognition and disclosure of income from other transactions

Recognition

Aus129.1 Subject to paragraph Aus129.5, a not-for-profit entity shall recognise income from a taxable event or a transaction that is not part of a contract with a customer when it initially recognises an asset measured in accordance with Appendix E at an amount exceeding the initial carrying amount of any resulting liability to the transferor of the asset.

Aus129.2 The amount of income recognised under paragraph Aus129.1 shall be measured as the excess of the initial carrying amount of the asset over the initial carrying

amount of the liability, if any, arising from the same transaction or taxable event.

Aus129.3 Subject to paragraph Aus129.5, a not-for-profit entity shall recognise income from a transaction that is not part of a contract with a customer when:

(a) a liability (or part of a liability) of the entity is settled, forgiven or transferred to another party; and

(b) the carrying amount of that liability (or part of the liability) exceeds the amount of any consideration paid by the not-for-profit entity upon that settlement, forgiveness or transfer.

Aus129.4 The amount of income recognised under paragraph Aus129.3 shall be measured as the excess of the carrying amount of the settled, forgiven or transferred liability (or part thereof) over the amount of any consideration paid upon the settlement, forgiveness or transfer.

Aus129.5 A not-for-profit entity shall not recognise income from a transaction within the scope of paragraph Aus129.1 or paragraph Aus129.3 when the transaction is a *contribution by owners* (see Appendix A and paragraphs IG95-IG99).

Aus129.6 The circumstances in paragraph Aus129.1 can arise when a not-for-profit entity recognises a transferred asset and either:

(a) does not recognise a liability to provide economic benefits to the transferor or another party (that is, the transaction is entirely composed of a donation or a tax); or

(b) in accordance with AASB 9, recognises a financial liability and the carrying amount of that liability at initial recognition is less than the carrying amount of the transferred asset on initial recognition (for example, the entity borrows money at a concessional rate of interest).

Aus129.7 Transfers of assets to not-for-profit entities that are within the scope of paragraph Aus129.1 are received in the form of:

(a) involuntary transfers, such as rates, taxes and fines; and

(b) voluntary transfers, such as donations (including donated goods and volunteer services) and some grants. In the case of government departments and agencies, voluntary transfers also include any parliamentary appropriations.

Aus129.8 In relation to the settlement, forgiveness or transfer of financial liabilities, a not-for-profit entity meets the requirement in paragraph Aus129.3 by applying the requirements for the derecognition of financial liabilities in AASB 9. Income arises from the forgiveness of a financial liability when a recognised contractual obligation is cancelled by a lender and that cancellation is not a contribution by owners (a contribution by owners may occur, for example, when a parent cancels a debt owed by a subsidiary). Another circumstance in which income is recognised under paragraph Aus129.3 is when a provision (for example, a provision for remediation of chemical contamination) is settled and the carrying amount of that provision exceeds the cost incurred by the not-for-profit entity in settlement.

Disclosures

Aus129.9 The objective of the disclosure requirements in paragraphs Aus129.10 – Aus129.18 is for a not-for-profit entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of income and cash flows arising from transactions and taxable events within the scope of this Standard that:

(a) are not part of a contract with a customer; or

(b) are an identifiable donation component of a contract with a customer.

Aus129.10 To achieve the objective in paragraph Aus129.9, an entity shall disclose the information referred to in paragraphs Aus129.11 – Aus129.18.

Aus129.11 A not-for-profit entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A not-for-profit entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

Aus129.12 An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

Disaggregation of income

Aus129.13 A not-for-profit entity shall disaggregate recognised income referred to in paragraphs Aus129.9 and Aus129.11 into categories that depict how the nature, amount, timing and uncertainty of income and cash flows are affected by economic factors. The following are examples of types of categories of recognised income that may be appropriate to disclose:

(a) involuntary transfers, such as taxes, rates and fines; and

(b) voluntary transfers, such as:

(i) grants, bequests and donations of goods (including cash);

(ii) forgivenesses of liabilities, and assumptions of liabilities by another entity;

(iii) for local governments, government departments, GGSs and whole of governments, volunteer services; and

(iv) for government departments and agencies, appropriations.

Aus129.14 Other recognised amounts that may be appropriate for a not-for-profit entity to disclose in accordance with paragraph Aus129.11 include the following, shown either in the statement of financial position or the statement of profit or loss and other comprehensive income, or in the notes:

(a) the amount of a receivable that is not a financial asset as defined in AASB 132 *Financial Instruments: Presentation*;

(b) the amount of any interest income and any impairment losses recognised in relation to that receivable during the period;

(c) the amounts of any *advance receipts* of resources relating to future taxes or future rates, and the future periods to which those advance receipts relate (see paragraph Aus129.17); and

(d) the amounts of any other obligations to refund assets at the request of the transferor.

Aus129.15 Other information that may be appropriate for a not-for-profit entity to disclose in the notes, to satisfy paragraph Aus129.11, includes:

(a) for each class of recognised income disclosed, the basis on which the fair value of inflows of resources is measured; and

(b) for each class of taxation income that the entity cannot measure reliably during the period in which the taxable event occurs (see paragraphs IG51 and IG92 in Appendix E), information about the nature of the tax and the reason(s) why that income cannot be measured reliably and when that uncertainty might be resolved.

Aus129.16 An example of receivables that are not financial assets (see paragraph Aus129.14(a)) are rights to amounts of income tax payable by taxpayers because those rights to cash are created as a result of statutory requirements rather than contractual requirements.

Aus129.17 Paragraph Aus129.14(c) identifies advance receipts as recognised items that may be appropriate for not-for-profit entities to disclose in accordance with paragraph Aus129.11. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits if a taxable event does not occur, or a transfer arrangement does not become binding. Additional guidance on advance receipts is set out in Appendix E.

Aus129.18 As noted in paragraph IG90 of Appendix E, a not-for-profit entity may be able to reliably measure assets and income arising from taxable events, using, for example, statistical models. However, in some cases a not-for-profit entity is unable to reliably measure the assets and income arising until one or more periods has elapsed since the taxable event occurred. In these latter cases, in accordance with paragraph Aus129.15(b), it may be appropriate for the entity to make disclosures about the nature of each class of taxation that cannot be reliably measured, and therefore recognised, during the period in which the taxable event occurs. In addition, it may be appropriate for the entity to disclose the reason(s) why that income cannot be measured reliably, and when that uncertainty might be resolved.

APPENDIX A

DEFINED TERMS

This appendix is an integral part of the [draft] Standard.

[Note to reader of this Exposure Draft: these definitions are reproduced from AASB 15.]

contract	An agreement between two or more parties that creates enforceable rights and obligations.
contract asset	An entity's right to consideration in exchange for goods or services that the entity has transferred to a **customer** when that right is conditioned on something other than the passage of time (for example, the entity's future performance).
contract liability	An entity's obligation to transfer goods or services to a **customer** for which the entity has received consideration (or the amount is due) from the customer.
customer	A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.
income	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants.
performance obligation	A promise in a **contract** with a **customer** to transfer to the customer either: (a) a good or service (or a bundle of goods or services) that is distinct; or

	(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
revenue	**Income** arising in the course of an entity's ordinary activities.
stand-alone selling price (of a good or service)	The price at which an entity would sell a promised good or service separately to a **customer**.
transaction price (for a contract with a customer)	The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a **customer**, excluding amounts collected on behalf of third parties.

Additional Australian definitions for not-for-profit entities

The following definitions below apply only to not-for-profit entities.

advance receipt	An amount received in relation to an expected future taxable event or in relation to another transfer arrangement before it creates enforceable rights and obligations.
contributions by owners	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.

payable tax credits	Tax credits that are not limited to the amount of a taxpayer’s tax liability for the period, because they are available to beneficiaries regardless of whether they pay taxes.
fines	Economic benefits received or receivable by a not-for-profit entity, as determined by a court or other law enforcement body, as a consequence of a breach of a law or regulation. Fines exclude penalties imposed by tax authorities.
tax relief	Preferential provisions of the tax law that provide particular taxpayers with concessions that are not available to others (excluding ‘payable tax credits’).
taxable event	The event that the government, legislature or other authority has determined will be subject to taxation.
taxes	Economic benefits compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide income to the government. Taxes exclude fines or other penalties imposed for breaches of the law, except for penalties imposed by tax authorities.

APPENDIX B

APPLICATION GUIDANCE FOR REVENUE FROM CONTRACTS WITH CUSTOMERS

Appendix B of AASB 15 will be an integral part of the [draft] Standard. It describes the application of paragraphs 9–129 of AASB 15 and has the same authority as the other parts of that Standard. Because the AASB proposes no modifications of Appendix B for application by not-for-profit entities, it is not reproduced in this [draft] Standard. The text of Appendix B can be obtained by accessing a copy of AASB 15 on the AASB website at: http://www.aasb.gov.au/admin/file/content105/c9/AASB15_12-14.pdf

APPENDIX C

TRANSITION

Paragraphs 9 – 129 of this [draft] Standard are adopted by a not-for-profit entity when it initially applies AASB 15 *Revenue from Contracts with Customers*. The transitional provisions for those paragraphs are set out in Appendix C of AASB 15.

This [draft] Standard proposes that the same transitional provisions as those in AASB 15 shall also apply to the other requirements of this [draft] Standard (that is, to taxable events and transactions that are not part of a contract with a customer). Consequently, a not-for-profit entity would be required to apply these other requirements retrospectively using one of two methods set out in paragraph C3 of Appendix C in AASB 15.

APPENDIX D

PROPOSED AMENDMENTS TO OTHER AUSTRALIAN ACCOUNTING STANDARDS SPECIFICALLY IN RESPECT OF NOT-FOR-PROFIT ENTITIES

These proposals accompany, but are not part of, the [draft] Standard.

D1 The wording of the [draft] Standard as set out in this Exposure Draft presumes that the following amendments will be made to other Australian Accounting Standards at the same time as the approval of a Standard resulting from the ED. If approved, these amendments would have the same application date as that Standard. If not-for-profit entities adopt that Standard early, they would need to apply these amendments simultaneously. The amendments would be made via an amending Standard rather than as part of or appended to the principal Standard including requirements for income from transactions of not-for-profit entities.

D2 Paragraphs proposed to be added to other Standards are presented below as 'clean' text. The proposed amendments to existing paragraphs are shown below in marked-up form (deleted text is struck through and new text is underlined).

Amendments to AASB 1004 *Contributions*

D3 Paragraphs 2 – 4, 6, 9, 11 – 38, 44 – 48, 50 – 52 and 60 – 63 are deleted.

Amendments to AASB 102 *Inventories*

D4 Paragraph Aus10.1 of AASB 102 is amended, and a new paragraph Aus10.2 is added, as follows:

Aus10.1 Notwithstanding paragraph 10, in respect of not-for-profit entities, ~~where~~ <u>when</u> inventories are acquired at no cost, or for nominal consideration, the<u>ir</u> cost shall be ~~the~~ <u>measured at their</u> ~~current replacement cost~~ <u>fair value</u> as at the date of acquisition.

Aus10.2 In applying paragraph Aus10.1 to donations of inventories received by a not-for-profit entity other than as part of a contract with a customer, assessments

of whether the donations are material should be made on an individual transaction basis without reassessment at a portfolio or other aggregate level.

Amendments to AASB 116 *Property, Plant and Equipment*

D5 Paragraphs Aus15.1 – Aus15.3 of AASB 116 are amended as follows:

Aus15.1 Notwithstanding paragraph 15, in respect of *not-for-profit entities*, ~~where~~ <u>if</u> an ~~asset~~ <u>item of property, plant and equipment</u> is acquired at no cost, or for ~~a~~ nominal ~~cost~~ <u>consideration</u>, ~~the~~ <u>its</u> cost ~~is~~ <u>shall be measured at</u> its *fair value* as at the date of acquisition.

Aus15.2 In respect of not-for-profit entities, an item of property, plant and equipment may be gifted or contributed to the entity. For example, land may be contributed to a local government by a developer at no <u>cost</u> or <u>for</u> nominal consideration to enable the local government to develop parks, roads and paths in the development. An asset may also be acquired ~~for~~ <u>at</u> no <u>cost,</u> or <u>for</u> nominal consideration<u>,</u> through the exercise of powers of sequestration. Under these circumstances the cost of the item is its fair value as at the date it is acquired.

Aus15.3 In respect of not-for-profit entities, for the purposes of this Standard, the initial recognition at fair value of an item of property, plant and equipment, acquired at no <u>cost</u> or <u>for</u> nominal ~~cost~~ <u>consideration</u>, consistent with the requirements of paragraph Aus15.1, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 31, and the supporting commentary in paragraphs 32 to 35, only apply where an entity elects to revalue an item of property, plant and equipment in subsequent reporting periods.

Amendments to AASB 138 *Intangible Assets*

D6 Paragraph Aus24.1 of AASB 138 is amended as follows:

Aus24.1 Notwithstanding paragraph 24, in respect of not-for-profit entities, ~~where~~ <u>if</u> an <u>intangible</u> asset is acquired at no cost, or for ~~a~~ nominal ~~cost~~ <u>consideration</u>, ~~the~~ <u>its</u> cost ~~is~~ <u>shall be measured at</u> its *fair value* as at the date of acquisition.

D7 The footnote to paragraph 44 of AASB 138 is amended as follows:

> AASB 120 only applies to for-profit entities. Not-for-profit entities are required to ~~recognise~~ <u>initially measure</u> the intangible asset and the grant initially at fair value in accordance with ~~AASB 1004 *Contributions*~~ <u>paragraph Aus24.1 of this Standard</u>.

Amendment to AASB 140 *Investment Property*

D8 Paragraph Aus20.1 of AASB 116 is amended as follows:

> **Aus20.1 Notwithstanding paragraph 20, in respect of not-for-profit entities, ~~where~~ <u>if</u> an investment property is acquired at no cost<u>,</u> or for nominal ~~cost~~ <u>consideration</u>, its cost shall be ~~deemed to be~~ <u>measured at</u> its fair value as at the date of acquisition.**

Amendments to AASB 141 *Agriculture*

D9 Paragraphs Aus12.1 and Aus38.1 of AASB 141 are added, former paragraph Aus38.1 is renumbered (as paragraph Aus38.2) and amended, and a new paragraph Aus38.3 is added, as follows:

> **Aus12.1 In respect of not-for-profit entities, the other exception to the measurement basis in paragraph 12 is in relation to government grants of biological assets, and other acquisitions of biological assets at no cost or for nominal consideration, which paragraph Aus38.1 requires to be measured on initial recognition at fair value.**

> **Aus38.1 Notwithstanding paragraph 12, not-for-profit entities shall measure on initial recognition government grants of biological assets, and other acquisitions of biological assets at no cost or for nominal consideration, at the fair value of the assets as at the date of acquisition.**

> **Aus38.~~1~~<u>2</u> Notwithstanding paragraphs 34-38, not-for-profit entities ~~recognise~~ <u>shall account for</u> government grants related to a biological asset in accordance with AASB ~~1004~~ <u>XX</u> ~~*Contributions*~~ <u>[the Standard developed from the proposals in this Exposure Draft]</u>.**

> Aus38.3 Not-for-profit entities measure biological assets to which a government grant relates in accordance with paragraphs 12 and 30 – 33.

Note to Board: The draft Amendments to AASB 141 are proposed to:

(a) specify that, consistent with the Board's decision in April 2012, government grants of biological assets are initially measured at fair value (rather than fair value less costs to sell). Consistent therewith, other acquisitions of biological assets at no cost or for nominal consideration would also initially be measured at fair value [see new paragraphs Aus12.1 and Aus 38.1 above];

(b) update the cross-reference to AASB 1004 (which would no longer apply to the treatment of government grants to not-for-profit entities) [see paragraph Aus38.2]; and

(c) clarify that the measurement requirements for biological assets to which a government grant relates, or received in a government grant, are specified in AASB 141 (and not the new Standard developed from this ED) [see new paragraphs Aus38.1 and Aus38.3]. If the government grant relates to biological assets:

  (i) the grant would be measured under another Standard (usually at an amount of cash received); and

  (ii) the new Standard developed from this ED would apply only to the treatment of the corresponding credit [see paragraph Aus38.2].

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].

APPENDIX E

AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES

This appendix is an integral part of the [draft] Standard and has the same authority as other parts of the [draft] Standard. The appendix applies only to not-for-profit entities.

[Note to AASB members: where applicable, the pronouncement used as the source of particular guidance is cited in parentheses after the relevant paragraph.]

Scope of the [draft] Standard

IG1 In relation to not-for-profit entities, the [draft] Standard applies to the accounting for:

(a) revenue from contracts with customers (see paragraphs 9 – 129 of the [draft] Standard[2]); and

(b) income arising from other transactions (see paragraphs Aus129.1 – Aus129.18 of the [draft] Standard). For the purposes of this [draft] Standard, *taxable events* (which give to tax income) are deemed to be transactions.

IG2 In relation to paragraph IG1(b), a not-for-profit entity shall apply the [draft] Standard to account for income from transactions that are not contracts with customers except to the extent that another Australian Accounting Standard applies to a transaction giving rise to other income. For example, income arising from financial instruments would be accounted for under AASB 9 *Financial Instruments*. Recognition of assets and income by grantors in a service concession arrangement would conform to the requirements in [draft] Standard ED XY *Service Concession Arrangements: Grantor*.[3]

Structure of this Appendix

IG3 This Appendix provides guidance on:

[2] Paragraphs 9 – 129 of the [draft] Standard reproduce paragraphs 9 – 129 of AASB 15 *Revenue from Contracts with Customers*, for context.

[3] Paragraph IG1(b) would only refer to a service concession arrangement that, for the grantor, is not a contract with a customer.

(a) the recognition of revenue, and the identification of any separately identifiable donation income, from transactions in contracts with customers (see paragraphs IG4 – IG32);

(b) the recognition of income from transactions that are not part of a contract with a customer (see paragraphs IG33 – IG94). This guidance complements paragraphs Aus129.1-Aus129.18 of the [draft] Standard; and

(c) the identification of *contributions by owners* (see paragraphs IG95 – IG99).

Recognition of Revenue from Transactions in Contracts with Customers

IG4 Paragraphs IG5-IG32 include:

(a) proposed clarification in a not-for-profit entity context of some terminology in paragraphs 9 – 129 and Appendix A of the [draft] Standard (see paragraphs IG5 – IG9);

(b) proposed guidance in a not-for-profit entity context on when an agreement with another party creates enforceable rights and obligations (see paragraphs IG12 – IG15); and

(c) proposed guidance in a not-for-profit entity context on when a promise to transfer a good or a service is stipulated in sufficient detail to be able to determine when the performance obligation is satisfied (see paragraphs IG16 – IG20).

Identifying whether a Contract with a Customer Exists

Contract

IG5 In relation to the definition of 'contract' in Appendix A, the reference to an 'agreement' in that definition should be read by not-for-profit entities as encompassing an arrangement entered into under the direction of another party (for example, when assets are transferred to an entity with a directive that they be deployed to provide specified services).

IG6 Paragraph 10 of the [draft] Standard states that contracts can be written, oral or implied by an entity's customary business practices. The customary business practices of a not-for-profit entity refers to that entity's customary practice in performing or conducting its activities.

Customer

IG7 References to a 'customer' in the [draft] Standard shall be read by not-for-profit entities as references to the counterparty to the transaction.

IG8 In many contracts with customers, the customer promises consideration in exchange for goods or services for which it is the sole beneficiary. However, in various contracts with customers in any sector, the customer directs that goods or services are to be provided to third party beneficiaries on the customer's behalf. In these contracts, the customer remains the party that has contracted with the entity for those goods or services and promises consideration in exchange for those goods or services. Accordingly, a not-for-profit entity may have a performance obligation arising from a transaction in which that entity has promised to transfer a good or service to a party other than the counterparty.

Commercial substance

IG9 Paragraph 9(d) of the [draft] Standard specifies that the [draft] Standard applies to a contract with a customer only if (among other criteria) "the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract)". A contract may have 'commercial substance', for the purposes of paragraph 9(d) of the [draft] Standard, even if it is entered into by a not-for-profit entity for purposes that, in everyday language, would be considered 'non-commercial' (for example, contracts to provide goods or services to members of the community on a cost-recovery basis). This is because contracts to provide goods or services without generating a commercial return may nonetheless cause a change in the risk, timing or amount of the not-for-profit entity's future cash flows. Accordingly, for the purposes of the [draft] Standard, 'commercial substance' should be read as a reference to economic substance (i.e., giving rise to substantive rights and obligations). Only contracts without economic substance would not cause a change in the risk, timing or amount of the not-for-profit entity's future cash flows.

Identifying Whether a Performance Obligation Exists

IG10 An inherent feature of a contract with a customer, which in turn is a pre-requisite for a performance obligation to be identified, is that the entity makes promises in an arrangement that creates enforceable rights and obligations (see paragraph 10 of the [draft] Standard). Paragraphs IG12-IG15 provide implementation guidance for not-for-profit entities on when an arrangement creates enforceable rights and obligations.

IG11 Another necessary condition for identifying a performance obligation in respect of a not-for-profit entity's promise to transfer goods or services to a counterparty in a contract is that the promise is sufficiently specific to be able to determine when the performance obligation is satisfied. Paragraphs IG16 – IG20 provide implementation guidance for not-for-profit entities on when a promise is 'sufficiently specific'.

Enforceable arrangement

IG12 An obligation can be enforced by another party through legal or equivalent means. It is not necessary for each promise to transfer goods or services to be enforceable by legal or equivalent means, as long as some enforceable obligations of the entity arise from the arrangement. In relation to not-for-profit entities, an arrangement would be enforceable by another party through legal or equivalent means if:

(a) the customer or another party acting on its behalf has a right to enforce specific performance;

(b) there exists a mechanism (such as a directive given by a Minister or government department to a public sector entity controlled by the government to which the Minister or government department belongs) by a party with legal authority to require a transfer of goods or services; or

(c) either a return obligation or a capacity to impose a severe penalty for non-performance accompanies a not-for-profit entity's promise to transfer goods or services. In some circumstances, where rights to specific performance are unavailable or unnecessary, a return obligation or a capacity to impose a severe penalty may be the key indicator of the enforceability of an arrangement involving a promise to transfer goods or services. A capacity to impose a severe penalty for non-performance can exist without a capacity to require a return of transferred assets or assets of equivalent value.

IG13 The examples in paragraph IG12 are not exhaustive. Various of those examples are not unique to the not-for-profit sector.

IG14 In contrast to the examples in paragraph IG12, the following factors would not, of themselves, cause an arrangement involving a promise to transfer goods or services to be enforceable by another party through legal or equivalent means:

(a) a transferor has the capacity to withhold future funding to which the entity is not presently entitled; and

(b) a not-for-profit entity's statement of intent to spend money or consume resources in particular ways, even if that statement of intent is the subject of budget-to-actual reporting and other oversight mechanisms to discharge accountability for the raising and expenditure or consumption of resources. As indicated in paragraph IG12, enforceability of an arrangement requires the existence of other parties with the power to enforce the arrangement by legal or equivalent means.

IG15 In relation to paragraph IG14(a), a transferor's capacity to withhold future funding to which the entity is not presently entitled can be distinguished from circumstances in which a transferor presently holds refund rights, or has the capacity to impose a severe penalty, in the event of the transferee's non-performance, but might choose to obtain such a refund or impose such a penalty by deducting the amount of the refund or penalty from a future transfer to the entity. For example, a transferor's capacity to withhold future funding to which the transferee is not presently entitled would differ from any circumstances in which a transferor could demand a refund of granted assets in the event of the transferee's non-performance, regardless of whether it makes any future transfers to the transferee, but chooses for convenience to 'settle net' by deducting the refund amount from a future transfer. In this latter case, the transferor could enforce against the entity a promise to provide goods or services. Whether the promise is sufficiently specific to qualify as a performance obligation is a separate issue (see paragraphs IG16 – IG20).

Sufficiently specific promise

IG16 As mentioned in paragraph IG11, a necessary condition for identifying a performance obligation in respect of a not-for-profit entity's promise to transfer goods or services to a counterparty in a contract is that the promise is sufficiently specific to be able to determine when the performance obligation is satisfied. Applying this principle requires judgement, taking into account whether the following are stipulated regarding the goods or services promised to be transferred:

(a) their nature or type;

(b) their cost or value;

(c) their quantity; and

(d) the period over which they must be transferred.

IG17 In relation to paragraph IG16(d), a stipulation that a transfer of assets to a not-for-profit entity relates to a particular time period does not, of itself, meet the 'sufficiently specific' criterion—the nature or type of goods or services to be transferred by that entity over that time period must also be stipulated.

IG18 Whether a promise to transfer a good or a service is part of an arrangement that creates enforceable rights and obligations and whether that promise is 'sufficiently specific' to qualify as a performance obligation are closely related considerations. For example, in an arrangement for the provision of services to the community, if the quantity of services to be provided is only vaguely defined, the arrangement might not create a right that the customer (or any other party) can enforce.

IG19 As mentioned in paragraph IG12, a promise to transfer goods or services can qualify as a performance obligation without being enforceable, provided it is part of an arrangement that is enforceable by another party through legal or equivalent means. In contrast, whether such promises are 'sufficiently specific' to qualify as performance obligations is assessed separately for each promise.

IG20 An acquittal process in relation to transferred resources might be indicative of a promise to provide goods or services that is both part of an 'enforceable' arrangement and 'sufficiently specific'. However, of itself, an acquittal process is neither necessary nor sufficient to ensure a performance obligation exists.

Consequence of failing either or both of the 'enforceable arrangement' and 'sufficiently specific' criteria

IG21 If a not-for-profit entity's promise to transfer goods or services in an arrangement with another party fails either or both of the 'enforceable arrangement' and 'sufficiently specific' criteria described in paragraphs IG12 – IG20, that entity shall not treat the promise as a performance obligation in a contract with a customer. Consequently, paragraphs 9 – 129 of the [draft] Standard would not apply to the promise, and the entity shall account for an inflow of assets relating to that promise in accordance with paragraphs Aus129.1 – Aus129.18 and paragraphs IG33 – IG99.

Recognition of a Donation Component of a Contract with a Customer

IG22 A customer may enter into a contract with a not-for-profit entity with a dual purpose of obtaining goods or services and donating resources to help the not-for-profit entity achieve its objectives. The donation represents the amount of consideration that is not attributable to the goods or services promised by the entity to its customer.

IG23 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 when the entity recognises the inflow(s) of the donated asset(s).[4] Consequently, the consideration attributable to the separately identifiable donation component is excluded from the transaction price, as determined in accordance with paragraph 47 of the [draft] Standard, which is allocated to each performance obligation in the contract.

IG24 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 IG25 – IG26); and, if so,

(b) the donation is separately identifiable from the goods or services promised in the contract (see paragraphs IG27 – IG32).

Customer's intention to make a donation

IG25 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:

(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; and/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.

IG26 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

4 The inflow(s) of the donated asset(s) would, subject to the asset(s) meeting the relevant recognition criteria, be recognised when the entity obtains control of the asset(s).

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, on closer examination, the entity might 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 the [draft] Standard) 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.

Separately identifiable donation component

IG27 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 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.

IG28 An example that would satisfy the criteria in paragraphs IG27(a) and (c) 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 nominated amount to generally assist the foundation in pursuing its mission. Such donations, which are voluntary for subscribers, are separately identifiable from the price of the annual subscription and their amounts can be measured reliably. However, if those donations were refundable if access were not provided for the entire subscription period, the criterion in paragraph IG27(b) would not be met 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 criterion in paragraph IG27(b) would not be met and the donation component would not be separately identifiable from the consideration for the promised dinner.

IG29 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 brand name 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 a contract for the purchase of a football with the charity's logo would include an identifiable donation component. This is because football with a charity's logo is a different good from 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 IG27(a) for separately identifying a donation component of a contract would not be satisfied.

IG30 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. 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.

IG31 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 of the [draft] Standard.

IG32 Donations that are not a component of a contract with a customer are recognised immediately as income in accordance with paragraphs Aus129.1–Aus129.18 of the [draft] Standard.

Income from Transactions that are Not Part of a Contract with a Customer

Recognition of Assets

IG33 If income related to an inflow of assets does not arise from transferring a promised good or service to a customer, the timing of recognition of that income would depend on:

(a) when the asset giving rise to that income is recognised (paragraphs IG35 – IG59 provide guidance for not-for-profit entities on when assets are recognised, including guidance on when control of assets is obtained for some transaction types that are specific to not-for-profit entities); and

(b) whether the not-for-profit entity incurs a liability when it accepts transferred resources (this is discussed in paragraphs IG63 – IG64).

IG34 Explicit guidance on the timing of recognition of income is set out in the discussion of particular transaction types in paragraphs IG62 – IG94.

Control of an asset

IG35 Subject to meeting the relevant recognition criteria, an asset is initially recognised when the entity obtains control of a resource or a right to receive a resource (whether in the form of cash, another financial asset or a non-financial asset such as an item of property, plant and equipment or a service).

IG36 Control of an asset arises when the entity can direct the use of, and obtain substantially all of the remaining benefits from, the asset. Paragraph 33 of the [draft] Standard provides guidance on the benefits that can be obtained from an asset.

IG37 The ability to deny or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example financial institutions or pension funds. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government that regulates those activities. [*IPSAS 23.32*]

IG38 The past event that gives rise to a not-for-profit entity's control of an asset may be a purchase or a transfer. [*IPSAS 23.34*] A not-for-profit entity obtains control of a transferred asset, whether in a voluntary or compulsory transfer, when the resource has been transferred to the entity, and the entity can direct the use of, and obtain substantially all of the remaining benefits from, the resource.

IG39 However, a not-for-profit entity would obtain a preceding receivable if it obtains an enforceable right against the transferor before it receives the transferred asset. The event giving rise to an enforceable right against a transferor may differ for voluntary and compulsory transfers (see paragraphs IG41 – IG49 and paragraphs IG50 – IG55, respectively).

IG40 Transactions expected to occur in the future do not in themselves give rise to assets – hence, for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a right against a taxpayer.

Control of voluntary transfers

IG41 Voluntary transfers include grants, appropriations,[5] debt forgiveness, bequests, gifts and donations[6] (including donated goods and volunteer services).

IG42 In relation to paragraph IG39, in some cases a not-for-profit entity's right against a transferor would be enforceable when the transferor promises to make the transfer (for example, if the transferor pledges to make a donation and the entity can legally enforce the pledge). In other cases, a not-for-profit entity's right against a transferor would not be enforceable until the entity satisfies eligibility criteria for the transfer (such as providing stipulated services, in relation to reimbursement transfers) or entity becomes entitled to rely on the transferor's promise. For example, under some multi-year public policy agreements between a government and another level of government or a government department, the transferor government's present obligation would be for amounts in respect of which the entity has either:

(a) met eligibility criteria (such as providing services or facilities to beneficiaries); or

[5] Appropriations are voluntary transfers in the sense that the government is not compelled to make particular appropriations. Once appropriations are legislated, the transferor is compelled to provide the amounts appropriated.

[6] Subsequent references to 'donations' in this [draft] Standard should be read to refer to both gifts and donations.

(b) otherwise become entitled (for example, this may occur in respect of an amount promised in respect of the current period, because the entity is entitled to rely on the promise and would suffer loss if the promise were not honoured). [*AASB 1004.28 – .29, but modified*]

IG43 A transferor's announcement of an intention to transfer resources to a not-for-profit entity is not of itself sufficient for that recipient entity to identify resources as controlled by it. For example, if a government school were destroyed by a fire and a government announced its intention to transfer funds to finance rebuilding of the school, the school would control that transfer only when it has an enforceable right to the transfer. [*IPSAS 23.33*]

Control over non-contractual parliamentary appropriations

IG44 Except when paragraph IG45 applies, a government department's or agency's control of amounts appropriated by parliament occurs at the earliest of:

(a) the commencement of the period to which the appropriation applies;

(b) the receipt of the appropriated funds, if the government department or agency can direct the use of those funds immediately upon receipt – for example, by possessing a right to retain interest earned on those funds; and

(c) the date on which the government department's or agency's authority to expend appropriated funds becomes effective. [*AASB 1004.34, but modified*]

IG45 In some cases, the nature of parliamentary appropriations is such that a government department's or agency's control over amounts appropriated is dependent on expenditure, the incurrence of obligations to third parties,[7] or the completion of agreed outputs, services or facilities. In those cases, the government department or agency obtains control of the appropriated amounts when the obligations to third parties are incurred or the expenditures are made. Such appropriations are in the nature of a recovery of costs incurred for the acquisition of goods or services or for amounts otherwise expended. [*AASB 1004.34 with minor edits*]

IG46 The nature of parliamentary appropriations, and the circumstances that give rise to a government department's or agency's control of such

[7] This paragraph does not address the issue of when government departments incur liabilities.

appropriations, can vary across different jurisdictions in Australia, and may vary for different types of appropriations within a particular jurisdiction. In addition, a government department's or agency's authority and ability to maintain separate bank accounts and to retain funds that have been appropriated for its use but that have not been expended during a reporting period can change over time. Similarly, the nature and content of appropriation legislation, the manner in which government departments' or agency's activities are funded, and the mechanisms by which parliament and the government ensure that the government departments' or agency's use of public funds is appropriate and consistent with government priorities as sanctioned by parliament, can change over time. These changes can affect a government department's or agency's ability to control amounts appropriated for its use. Accordingly, the extent to which amounts appropriated for a government department's or agency's use are recognised as income of a particular reporting period is determined by reference to the characteristics of the appropriation process and the circumstances in which the government department or agency obtains control of appropriated amounts. [*AASB 1004.35*]

IG47 Parliamentary appropriations made to enable an agency to perform its services are income of that agency. This is because the agency has the authority to deploy the appropriated funds for the achievement of its objectives and, consequently, controls the assets arising from the appropriation. (See paragraph IG55 for discussion of whether tax collection agencies, such as government departments, control taxes they collect.) [*AASB 1004.38*]

Bequests

IG48 A bequest is a transfer made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, depending on the laws of the jurisdiction. [*IPSAS 23.90*]

Donations, including donated goods and volunteer services

IG49 Donations are voluntary transfers of assets including cash or other monetary assets, donated goods and volunteer services that one entity (for example, a person) makes to another entity. Donations are normally free from stipulations. However, a donation might be promised by a customer in a contract in which the customer also promises consideration in exchange for goods or services promised by the entity (see paragraphs IG22 – IG32). For donations of cash or other monetary assets, donated goods and volunteer services, if the transferor (donor) has not made an enforceable pledge to provide those assets, control of resources embodying future economic benefits arises when the donated resources are received. [*IPSAS 23.93; modified*]

Control over compulsory transfers

IG50 A not-for-profit entity obtains an enforceable claim to compulsory transfers, such as rates, taxes and *fines*, when the underlying transaction or other event giving rise to control of the future economic benefits occurs. For example, a not-for-profit entity obtains an enforceable claim to taxes when the underlying transaction or event that gives rise to the taxing entity's[8] right to levy the tax (the 'taxable event') occurs (see paragraph IG51). [*AASB 1004.30*]

Taxable event

IG51 The taxable event for each tax levied is specified in the taxation law. Unless otherwise specified in laws or regulations, it is likely that the taxable event for:

(a) income tax is the earning of taxable income during the taxation period by the taxpayer;

(b) goods and services tax is the purchase or sale of taxable goods and services during the taxation period;

(c) customs duty is the movement of dutiable goods or services across the customs boundary; and

(d) property tax is the passing of the date on which the tax is levied, or, if the tax is levied on a periodic basis, the period for which the tax is levied. [*IPSAS 23.65; modified*]

IG52 It is unlikely that taxes, for example, income tax, will qualify as assets of the entity responsible for their collection. This is because the entity responsible for collecting taxes does not normally control the future economic benefits embodied in tax collections (for example, in relation to government departments, see AASB 1050 *Administered Items*). [*AASB 1004.31*]

Fines

IG53 From the perspective of a not-for-profit entity that is a recipient of fines, a fine is economic benefits received or receivable from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity

8 For the purposes of this Exposure Draft, a general government sector (GGS) is treated as an 'entity' when it prepares financial statements.

breaching a law or regulation. They are compulsory transfers other than taxes and rates. Penalties imposed by tax authorities are not accounted for as fines and instead are treated as income from taxes.

IG54 In some States, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the penalty is treated as a fine and the recipient not-for-profit entity obtains control of the penalty when the agreement is reached. [*IPSAS 23.88*]

IG55 Where an entity collects fines in the capacity of an agent (that is, it does not control the future economic benefits embodied in the fines before it transfers the collected fines to another party), the fine will not be an asset of the collecting entity. [*IPSAS 23.89*] Application Guidance on 'principal versus agent considerations' is set out in paragraphs B34-B38 of Appendix B in AASB 15.

Recognition criteria for assets

IG56 An inflow of an asset from a transaction other than a contract with a customer shall, except when it is within the scope of another Australian Accounting Standard, be recognised as an asset when, and only when:

(a) it is probable that the future economic benefits associated with the asset will flow to the entity; and

(b) the fair value of the asset can be measured reliably. [*AASB 1004.12—with (b) thereof modified to require that the asset's fair value—and not simply its 'amount'—can be measured reliably; IPSAS 23.31*]

IG57 Other Australian Accounting Standards with asset recognition criteria include AASB 9, AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets*, AASB 140 *Investment Property* and AASB 141 *Agriculture*. Not-for-profit entities apply the recognition criteria in those Standards to assets that fall within their scope. Assets outside the scope of other Australian Accounting Standards (and therefore within the scope of paragraph IG56) include statutory receivables and volunteer services (see also paragraph IG73, which further limits the circumstances in which recognition of volunteer services is required).

IG58 Paragraphs IG62 – IG94 discuss the application of the recognition criteria in paragraph IG56 and the measurement requirements on initial recognition in paragraphs IG60 – IG61 for particular transaction types of not-for-profit entities.

Probable inflow of resources

IG59 An inflow of resources is 'probable' when the inflow is more likely than not to occur. The entity bases this determination on its experience, if any, with similar types of flows of resources and its expectations regarding the transferor (including taxpayer). For example, where a government agrees to transfer funds to a not-for-profit entity, and the agreement is enforceable, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date.[9] [*IPSAS 23.35, modified*]

Measurement of assets on initial recognition

IG60 An entity shall initially measure an asset that is not acquired in a contract with a customer and not within the scope of another Australian Accounting Standard at its fair value as at the date of initial recognition. This principle is consistent with the principle in paragraph 66 of the [draft] Standard,[10] which applies only to contracts with customers.

IG61 The principle of measuring assets at fair value on initial recognition in paragraph IG60 is complemented by a similar requirement in AASB 102 *Inventories*, AASB 116, AASB 138, AASB 140 and AASB 141, each of which requires assets that are within the scope of those Standards and acquired by not-for-profit entities at no cost, or for nominal consideration, to initially be measured at fair value.[11] AASB 9 contains a different measurement requirement on initial recognition than that in paragraph IG60. AASB 9 requires an entity to measure a financial asset on initial recognition at fair value plus, in the

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[9] It would be more evident that it is probable that the inflow will occur if the government has a history of transferring agreed resources. However, this is not a pre-requisite for a probable inflow.

[10] Paragraph 66 includes: "To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value." That paragraph was developed as part of the requirements for measuring the transaction price for a contract with a customer, and therefore for measuring the amount of revenue from transferring a promised good or service to a customer. Although paragraph 66 of the [draft] Standard was not developed for the measurement of assets, the AASB considers it is appropriate for the initial measurement of an asset referred to in paragraph IG60 and for measuring any income arising upon initial recognition of such an asset.

[11] In relation to AASB 102, see the proposed amendment to paragraph Aus10.1 of that Standard in Appendix D of this Exposure Draft. That amendment would change the measurement basis for the inventories from current replacement cost to fair value. The AASB's reason for that change is explained in the AASB's Basis for Conclusions on this [draft] Standard.

case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Application of Principles to Particular Types of Transactions that are Not Part of a Contract with a Customer

Transfers

IG62 If assets transferred to a not-for-profit entity are not consideration received in a contract with a customer, the entity shall recognise the transfer in accordance with paragraphs Aus129.1 and Aus129.2 of the [draft] Standard.

IG63 A not-for-profit entity shall analyse all stipulations contained in transfer agreement to determine whether it incurs a liability when it accepts transferred resources. If assets transferred to the entity are not consideration received in a contract with a customer, they may give rise to liabilities in the form of:

(a) loans or amounts owed to creditors (accounted for under AASB 9);

(b) 'advance receipts' liabilities under transfer arrangements that are not yet enforceable (see paragraphs IG78 – IG81); or

(c) under transfer arrangements that are enforceable, an obligation to stand ready to return transferred assets if a specified uncertain future event occurs (for example, a failure to obtain matching transfers from other parties in arrangements that do not include promises to transfer goods or services to customers).

IG64 Obligations to stand ready to return transferred assets [see paragraph IG63(c)] are recognised as liabilities and measured consistently with how a refund liability would be measured under paragraph 55 of the [draft] Standard if the entity did not expect to be entitled to retain the transferred asset. That is, a not-for-profit entity shall measure the stand-ready obligation as if it was part of a contract with a customer, although it does not arise from a contract with a customer. The obligation shall be measured at the amount the entity would need to return if it were not entitled to retain the transferred assets.

IG65 Transfers of resources that satisfy the definition of 'contributions by owners' will not give rise to income (see paragraphs IG95 – IG99).

IG66 In the case of multi-year grant agreements from a government to another level of government or a government department, the transferee government or government department would recognise income in relation to resources received or enforceable rights to receive resources under the agreement. As illustrated in paragraph IG42, a transferee might not presently have enforceable rights to amounts promised in relation to future years under a multi-year grant agreement.

Fines

IG67 Fines do not impose on the recipient not-for-profit entity any obligations that may qualify as a liability. Therefore, fines are recognised as income when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph IG56. Fines receivable are measured and accounted for consistently with taxes receivable (see paragraphs IG87 – IG88). Consequently, fines receivable are initially measured at their fair value plus, in the case of receivables not at fair value through profit or loss, any transaction costs directly attributable to the acquisition of those receivables. [*IPSAS 23.89; modified*]

Bequests

IG68 Bequeathed items that satisfy the definition of an asset are recognised as assets when:

(a) the entity has obtained a present legal right to those assets (which cannot occur until probate has been granted);

(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.

IG69 Determining the probability of an inflow of future economic benefits may be problematic if a period of time elapses between probate being granted and the entity receiving any assets. The entity shall determine whether the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the Will is disputed, this will also affect the probability of assets flowing to the entity. 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 not-for-profit entity arises from the bequest (for example, the entity has a performance obligation 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[12]). [*IPSAS 23.91; modified*]

Volunteer services

Nature of volunteer services

IG70 Volunteer services are services donated by individuals or other entities to not-for-profit entities without charge or for nominal consideration. These services generally meet the definition of an asset because the entity controls a resource from which future economic benefits are generally expected to flow to the entity. These assets (services) are immediately consumed. The consumption of these services gives rise to an immediate expense, unless the services form part of the construction or improvement of an asset (in which case the value of the services forms part of the cost of that asset). Thus, the receipt of volunteer services generally gives rise to an item of income and corresponding expense. [*IPSAS 23.99*]

IG71 Not-for-profit entities may be recipients of volunteer services under voluntary or compulsory schemes operated in the public interest, for example:

(a) technical assistance from other governments or international organisations;

(b) persons convicted of offences may be required to perform community service for a not-for-profit entity;

(c) hospitals may receive the services of volunteers;

(d) schools may receive voluntary services from parents as teachers' aides or as board members; and

(e) local governments may receive the services of volunteer fire fighters. [*IPSAS 23.100*]

IG72 Not-for-profit entities may also be recipients of volunteer professional services that support their broader activities. For example, charities and religious organisations may receive free professional accounting or legal services.

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[12] Bequests are discussed in the part of this Appendix dealing with transactions that are not part of a contract with a customer, because bequests typically would not occur in contracts with customers. For bequests involving performance obligations, the customer would be the trustee of the deceased estate, acting on behalf of the deceased person.

Recognition and measurement of volunteer services

IG73 The [draft] Standard requires local governments, government departments, general government sectors (GGSs) and whole of governments to recognise volunteer services as income and a corresponding asset or expense when:

(a) the fair value of those services can be measured reliably; and

(b) the services would have been purchased if they had not been donated. [*AASB 1004.44*]

IG74 The [draft] Standard permits any not-for-profit entity to recognise volunteer services as income and a corresponding asset or expense if the fair value of those services can be measured reliably (that is, the criterion in paragraph IG73(b) need not be met for a not-for-profit entity to elect to recognise volunteer services). [*amends AASB 1004*]

IG75 Recognised volunteer services are measured at their fair value, consistent with the general principle in paragraph IG60. [*AASB 1004.45*]

IG76 Some volunteer services donated to a local government, government department, GGS or whole of government, while useful, may not be central to the delivery of the recipient's outputs. In these cases, it is unlikely that the recipient would purchase the services if they were not donated, and the recipient would not be required to recognise the volunteer services. [*AASB 1004.46*]

IG77 In some other circumstances, volunteer services provided to a not-for-profit entity (regardless of whether it is a local government, government department, GGS or whole of government) might qualify as assets, but the fair value of those services might not be able to be measured reliably, and therefore fail to satisfy the criteria for recognition as an asset. Some volunteer services, such as professional services, might have readily observable market prices – in such circumstances, obtaining a reliable measure of fair value would be possible. [*IPSAS 23.101*] For such services, if received by an entity referred to in paragraph IG73, their recognition would be required if the entity would have purchased them if they had not been donated. Entities referred to in paragraph IG73 are not required to perform an exhaustive search for volunteer services that might meet the recognition criteria in that paragraph; volunteer services that would have been purchased if they were not donated should be readily identifiable from the entity's operational requirements.

Advance Receipts of Transfers

IG78 A transfer recognised as an asset before the transfer arrangement becomes enforceable is recognised as giving rise to a liability (advance receipts) until the transfer arrangement becomes enforceable. This is because the event that gives rise to the not-for-profit entity's entitlement to retain the transfer has not occurred, and the entity has an unconditional obligation (a liability) to stand ready to return the transfer if the transfer arrangement does not become enforceable. [*IPSAS 23.105 & BC20*]

IG79 Liabilities for advance receipts of transfers are measured at the amount that would be required to be returned if the arrangement does not become enforceable, discounted from the first date that the amount could be required to be returned.

IG80 When the transfer arrangement becomes enforceable, and the advance receipt liability is extinguished, either of the following occurs:

(a) performance obligations arise and the consideration initially received as an advance receipt is accounted for as the amount of a contract liability, which is composed of performance obligations and any refund obligations measured in each case in accordance with paragraphs 46 – 90 of the [draft] Standard. An item of income or expense would only arise at that point if a performance obligation is satisfied simultaneously, an identifiable donation component exists or the contract is immediately onerous; or

(b) performance obligations do not arise and, except to the extent any refund obligation (measured consistently with paragraph 55 of the [draft] Standard) arises, the carrying amount of the advance receipt liability when it is extinguished is recognised as income.

IG81 Refund obligations referred to in paragraph IG80(b) arise if the entity is obligated to return transferred assets if an uncertain future event does not occur.

Taxes

IG82 Taxes do not give rise to performance obligations,[13] even when they are raised in respect of specific goods or services. This is because the

[13] However, if tax payments are received on the condition that they be returned if an uncertain future event occurs, or fails to occur, they would give rise to an advance receipt or a refund obligation that should be recognised as a liability. The treatment of such obligations is discussed in paragraphs IG84 – IG86.

taxing entity does not promise to provide goods or services in an arrangement that creates obligations enforceable against the taxing entity by legal or equivalent means. However, taxes may give rise to 'advance receipts' liabilities and, subsequently, liabilities to stand ready to return taxes paid if, contrary to estimates, the taxes paid exceed the tax eventually assessed (see paragraphs IG84 – IG86).

IG83 Taxes do not satisfy the definition of 'contributions by owners' (see paragraphs IG95 – IG99), because the payment of taxes does not give the taxpayers a right to receive distributions of future economic benefits by the entity during its life or distribution of any excess of assets over liabilities in the event of the taxing entity being wound up. Nor does the payment of taxes provide taxpayers with an ownership right in the taxing entity that can be sold, exchanged, transferred or redeemed. [*IPSAS 23.62*]

Advance receipts of taxes and other tax liabilities

IG84 A tax recognised as an asset before the occurrence of the related taxable event is recognised as giving rise to a liability (advance receipts). This is because the event that gives rise to the not-for-profit entity's entitlement to retain the tax has not occurred, and the entity has a liability to stand ready to repay the tax if the taxable event does not occur. [*IPSAS 23.66*]

IG85 Liabilities for advance receipts of taxes are measured at the amount of taxes that would be required to be returned if the taxable event does not occur, discounted from the first date that the amount could be required to be repaid.

IG86 When the taxable event occurs, and the advance receipt liability is extinguished, an obligation may arise to stand ready to repay taxes if, contrary to estimates, the taxes paid exceed the tax eventually assessed. Such obligations to stand ready to repay taxes are recognised as liabilities and measured consistently with refund liabilities under paragraph 55 of the [draft] Standard. Any difference between the carrying amount of an advance receipt liability when it is extinguished and any recognised liability to stand ready to refund taxes is recognised as an adjustment to tax income when the taxable event occurs.

Measurement and recognition of taxation income

IG87 Not-for-profit entities are required to initially measure tax receivables as if the measurement principles of AASB 9 applied to them (that is, as if tax receivables were financial assets). Therefore, tax receivables are initially measured at their fair value plus, in the case of receivables not at fair value through profit or loss, any transaction costs directly attributable to their acquisition.

IG88 Consistent with the general requirements of paragraphs 46, 47, 107 and 108 of the [draft] Standard:

(a) the taxation income arising from a taxable event occurring (and creation of a tax receivable) is measured at the amount to which the entity expects to be entitled as a result of that event occurring;

(b) any difference between the measurement of the tax receivable in accordance with paragraph IG87 and the corresponding amount of income recognised in accordance with paragraph IG88(a) is presented as an expense; and

(c) any impairment losses recognised on tax receivables are presented as expenses (rather than deducted from taxation income).

IG89 Consistent with paragraph 55 of the [draft] Standard, the amount of taxes received from taxpayers that the entity expects to refund is recognised as a refund liability, and is excluded from taxation income unless and until (and to the extent that) the refund liability expires without payment of a refund.

IG90 When taxes are received at different times from the taxable event, taxing entities may reliably measure assets arising from taxation transactions by using, for example, statistical models based on the history of collecting the particular tax in prior periods. These models will include consideration of the timing of receipts from taxpayers, declarations made by taxpayers and the correlation between taxation receivable and other events in the economy (reflected in economic aggregates). Measurement models will also take account of other factors such as:

(a) the tax law allowing taxpayers to file returns after the taxing entity's financial statements are authorised for issue;

(b) taxpayers failing to file returns on a timely basis;

(c) valuing non-monetary assets for tax assessment purposes;

(d) complexities in tax law requiring extended periods for assessing taxes due from particular taxpayers;

(e) the potential that the financial and political costs of rigorously enforcing the tax laws and collecting all the taxes legally due to the government may outweigh the benefits received;

(f) the tax law permitting taxpayers to defer payment of some taxes; and

(g) a variety of circumstances particular to individual taxes and jurisdictions. [*IPSAS 23.68*]

IG91 Measuring assets arising from taxation transactions using statistical models may result in the actual amount of assets recognised being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. [*IPSAS 23.69*] For example, tax refunds and reductions in tax receivables that result from prior overestimates of tax income are deducted from tax income for the period in which the estimate is revised.

IG92 In some cases the assets arising from taxable events and the related income cannot be reliably measured until after the taxing entity's financial statements are authorised for issue. This may occur, for example, if a tax base is volatile and reliable estimation is not possible. Consequently, in those cases, the assets and income would be recognised in a period subsequent to the occurrence of the taxable event, which might be several reporting periods after the taxable event. [*IPSAS 23.70, edited*]

Payable tax credits and other tax relief

IG93 Amounts of tax relief that enter directly into the calculation of a taxpayer's tax liability (including tax allowances, exemptions and deductions, and 'non-payable tax credits') are treated as reductions in income (i.e. foregone income), rather than expenses. A 'non-payable tax credit' is a tax credit limited to the amount of the taxpayer's tax liability for the period. An example of tax relief that enters directly into the calculation of a taxpayer's tax liability is where taxpayers are permitted tax deductions for self-education expenses. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession.

IG94 In contrast, a 'payable tax credit' is a tax credit that is not limited to the amount of the taxpayer's tax liability for the period; that is, any excess of the tax credit over the tax liability for the period would be payable to the taxpayer. Such tax credits might be payable to taxpayers as part of a programme in which the same amount of benefit is paid to taxpayers and non-taxpayers alike (the latter being payable exclusively in the form of a cash benefit). For example, a government may use the tax system as a convenient method of paying benefits to taxpayers, which would otherwise be paid using another payment method, such as writing a cheque, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents' health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability (by providing payable tax credits), making a payment by cheque or by paying an amount directly to the insurer. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently, this amount is an expense of the government and is recognised separately from its tax income. Tax income is measured gross of any expenses incurred by granting payable tax credits. [*IPSAS 23.72, edited*]

Contributions by Owners

IG95 Contributions by owners are recognised in equity when the contributed resources qualify for recognition. [*AASB 1004.48*]

IG96 It is important to distinguish contributions by owners from other transfers. Some argue that contributions that are provided on the condition that they be expended on assets that increase the capacity of the entity to provide particular services should be classified as contributions of equity. However, such contributions would be contributions by owners, as defined in Appendix A in the [draft] Standard, when and only when the contributor establishes by way of the contribution a financial interest in the net assets of the entity that:

(a) conveys entitlement both to a financial return on the contribution 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 1004.50*]

IG97 Examples of contributions by owners are transfers to a government department from its controlling government acting in its capacity as owner. Transactions with owners acting in their capacity as owners are not common in a local government context. A local government may on occasions receive contributions by owners, such as investments in the capital of companies controlled by the governing body of the local government. [*AASB 1004.51*]

IG98 Contributions by owners can occur upon establishment of the entity or at a subsequent stage of the entity's existence. Contributions by owners can be in the form of cash, nonmonetary assets such as property, plant and equipment, or the provision of services. In some instances, the contribution may result from the conversion of the entity's liabilities into equity. [*AASB 1004.52*]

IG99 A contribution by owners might be evidenced by, for example:

(a) a formal designation of the transfer (or a class of such transfers) by the contributor or a parent of the contributor as forming part of a wholly-owned recipient's contributed equity, either before the contribution occurs or at the time of the contribution;

(b) a formal agreement, in relation to the contribution, establishing a financial interest in the equity of the recipient which can be sold, transferred or redeemed, or increasing such an existing financial interest; or

(c) the issuance, in relation to the contribution, of equity instruments which can be sold, transferred or redeemed. [*AASB Interpretation 1038* Contributions by Owners Made to Wholly-Owned Public Sector Entities, *paragraph 8*]

ILLUSTRATIVE EXAMPLES

[AUSTRALIAN ILLUSTRATIVE EXAMPLES FOR NOT-FOR-PROFIT ENTITIES][14]

These illustrative examples would complement, and have the same status, as the Illustrative Examples accompanying IFRS 15 Revenue from Contracts with Customers. *Those IASB Illustrative Examples are not included in this Exposure Draft because they are available in a separate file on the AASB website. AASB website users in Australia can access those IASB Illustrative Examples at:*
http://www.aasb.gov.au/admin/file/content105/c9/IFRS15_IE_5-14.pdf

The numbering of the paragraphs below reflects that these illustrative examples for not-for-profit entities would follow on from the sixty-three Illustrative Examples accompanying IFRS 15 (as issued in May 2014). If the numbering of the Illustrative Examples accompanying IFRS 15 changes, the paragraph numbers of these Australian not-for-profit entity Illustrative Examples would change accordingly.

IE1 The following examples portray hypothetical situations. They are intended to illustrate how a not-for-profit entity might apply some of the requirements of the [draft] Standard to particular types of transactions not illustrated by the IASB's Illustrative Examples, on the basis of the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying the [draft] Standard. The evaluations in each example are not intended to represent the only manner in which the [draft] Standard could be applied.

Assessing whether performance obligations in contracts with customers exist, and the resulting treatment

IE2 Examples 64 – 82 illustrate the requirements in paragraphs 9 – 129 and IG 4 – IG32 of the [draft] Standard for:

(a) identifying whether a transaction involves a performance obligation in a contract with a customer; and, if so,

(b) how to account for the transaction, including assessing whether the transaction includes an identifiable donation component.

[14] Note for Board members: This heading in parentheses is the true heading for this part of the draft Exposure Draft. The heading at the top is automatically generated by the document template and will not appear in the published Exposure Draft.

Example 64—Charity's Enforceable Promises
An Australian company provides 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. 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. For this reason, and because there is not an indication by the customer that a component of the consideration is provided without expecting services to be transferred to it in return, the charity concludes that the contract does not include a donation component. Because the charity is operating as a service provider and there is no donation component, the charity recognises revenue in accordance with paragraphs 9 – 129 of the [draft] Standard. Accordingly, the charity identifies a performance obligation in respect of the promised services to which the quarterly instalment received in advance relates, and recognises a contract liability for $15 million.

Example 65—Payment to a Charity for Discretionary Use
On its website, an Australian charity advises potential donors that each donation of $800 would enable it to build a well providing clean drinking water 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. During the current period, consideration received by the charity included 200 donations of $800 each, indicated by the donors to be for the purpose of building wells. Building the wells was suspended by the charity during the period due to an outbreak of war. The charity redirected some of the donations received for wells to

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.

Because the charity has discretion over how donated money is used (provided the use is consistent with its overall objectives), 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 66—Restrictions on the Timing of Expenditure

An Australian charity receives a government grant of $2 million on 31 May 20X0, which is refundable to the extent that the grant money is expended before 1 July 20X0 or after 30 June 20X1. The charity is entitled to retain any interest earned on the unexpended grant money.

The charity's annual reporting period ends each 30 June. Additional assumed facts are as follows.

Example 66A

The contract between the grantor and the charity stipulates that the grant must be expended on crisis counselling services to be provided for a specified number of hours per week for the entire year ending 30 June 20X1. The charity expects to honour its promise to provide the counselling services. The charity's promise is sufficiently specific to enable identification of when the promise is satisfied.

The grantor can enforce its rights under the contract because it can require refund of the grant if the charity breaches its promise to provide the services over the specified period.

The charity recognises a contract liability of $2 million and attributes that amount to the performance obligation, the satisfaction of which gives rise to revenue as the services are transferred by the charity.

The potential for the grant to become immediately repayable to the extent any grant money is expended before 30 June 20X1 does not undermine the classification of the entity's promise as a performance obligation, because the charity expects to honour its promise to provide the counselling services.

Example 66B

The contract between the grantor and the charity stipulates that the grant must be expended on particular services. The only stipulations in the contract are that:

(a) the grant must be used in accordance with the charity's overall objectives; and

(b) the grant money is expended between 1 July 20X0 and 30 June 20X1.

Consequently, the grantor is not promised a particular service by the charity, and it is concluded that the charity does not have a performance obligation.

Because the charity is entitled to retain any interest earned on the unexpended grant money, it controls the grant money from the date of receipt (on 31 May 20X0), despite not having authority to spend the money before 1 July 20X0. The charity has the discretion not to expend the grant money before 1 July 20X0, and therefore does not have a liability in relation to the potential breach of contract. If the charity breaches the contract by expending money before 1 July 20X0 or by failing to expend the grant in full by 30 June 20X1, the breach is the obligating event giving rise to a refund liability. Therefore, the charity recognises the grant of $2 million as income as at 31 May 20X0. If the charity breaches the contract, it recognises a liability and equivalent expense for the amount due for repayment when the breach occurs.

Example 67—Grant from Another Level of Government Without Stipulations [*based on Example 9 in ED 180*] [15]

The Australian Federal Government (transferor) makes a grant of $10 million to a local government in a socio-economically deprived area. The local government (reporting entity) has authority under legislation to undertake various social benefit programmes. There are

[15] Note to AASB members: these parenthetical cross-references are for Board members' information only and are not proposed to be included in the ED.

no stipulations attached to the grant, although the transferor and the community expect the grants will be used to provide social benefits.

Because there are no stipulations attached to the grant, the entity does not have a performance obligation. Accordingly, the grant is recognised as income for the period in which the local government obtains control of the transferred funds. Immediate recognition of the grant as income occurs regardless of when the local government uses the grant to provide social benefits to the community.

Example 68—Arrangements between the Australian Government and various State/Territory Governments

Arrangements involving Specific-Purpose Payments

Example 68A: specific outputs are targeted

The Australian Federal Government enters an arrangement with a State Government (documented in a Memorandum of Understanding[16]) under which it pays a grant of $70 million to the State Government to fund a health initiative with clearly specified outputs of that State Government (the reporting entity). The Australian Federal Government can enforce repayment of the grant if specified targets are not achieved; that is, the arrangement is considered to be enforceable. The promises to transfer goods or services under the arrangement are specified in specific detail to be able to determine when those promises would be satisfied. Therefore, performance obligations are identified in respect of the grant, and a contract liability is recognised.

Example 68B: specific outcomes are targeted

Assume instead that, under the grant arrangement, specified outcomes are targeted. Those outcomes form the basis for assessing the effectiveness of the State Government's performance in conducting the health initiative. The promised goods or services are those that must be provided in order for the State Government to satisfy the conditions for retention of the payment. If the targeted outcomes are, in part, beyond the control of the State Government, the criterion used by the Australian Federal Government to identify whether the State Government should retain the payment might be that the State

16 Not all Memoranda of Understanding would necessarily be enforceable.

Government has, in good faith, provided services to the Australian Federal Government in pursuit of those outcomes. Particular outputs might be used as criteria for making that assessment. In such a case, the promise to provide those services (outputs) would be a performance obligation, even though the aims of the programme are the achievement of particular outcomes. The services are provided to the Australian Federal Government notwithstanding that the ultimate beneficiaries of those services are members of the community.

The analysis in the paragraph immediately above is consistent with how a contract for medical research would be analysed under AASB 15. Although the aim of the research might be to discover a cure for a particular disease, the service provided by the researcher to its customer would be undertaking the research on behalf of the customer.

Example 68B(i): achievement of targeted outcomes would affect future funding

Assume the facts in Example 68B. In addition, assume that whether targeted outcomes are achieved would affect whether the State Government receives future Australian Federal Government funding for similar programmes, but would not affect whether the State Government is entitled to retain payments for the services it provides under its existing contract with the Australian Federal Government. Nevertheless, as in Example 68B, the arrangement is enforceable because the Australian Federal Government can enforce repayment of the grant if it assesses that the State Government has not adequately pursued the targeted outcomes. The effect on future funding is not part of that existing contract and has no effect on the assessment of whether performance obligations arise from the grant. Therefore, the conclusion is the same as in Example 68B.

Example 68C: time stipulation with promise to provide a service

If a payment from the Australian Government to the State Government was provided on the condition that the funds must be used in the provision of a very broadly defined service and that they must be spent by a specified date (with any unused amount refundable to the Australian Government), the time stipulation would, together with the direction that the State Government must transfer a service to the Australian Government, be sufficiently specific to identify when the promise is satisfied.

Example 68D: time stipulation without promise to provide a good or a service

In contrast to Example 68C, if an entity (such as a State or Territory Government) were provided a refundable transfer on the condition that it be used by the State or Territory by a specified date, without any stipulation regarding the nature of the goods or services to be provided, absent any other factors there would be no promise to transfer goods or services to the customer – for example, the condition could be satisfied by settling debts of the entity. In this latter example, the time-based stipulation would not give rise to a performance obligation.

Arrangements involving General-Purpose Payments

Example 68E: 'general revenue assistance'

'General revenue assistance', including goods and services tax distributions, from the Australian Federal Government to the States and Territories are provided without conditions and therefore do not give rise to liabilities of those recipient entities. They are recognised as income when the entity initially recognises the assets received or receivable.

[***Example 69*** ***left blank in this draft ED: numbering will be corrected in next draft***]

Identifiable donation component

Example 70—Fundraising Drive: Goods

A not-for-profit entity sells chocolates made by a recognised 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. In addition, buyers of the chocolates are often motivated to do so because of the not-for-profit entity's benevolent aims. Despite these two aspects, there is no evidence that part of the selling price of the chocolates is not consideration to which the entity expects to be entitled in exchange for the chocolates. If the chocolates were ordered and paid for in advance and the not-for-profit entity were unable to deliver the chocolates, the customer would expect a full refund of the purchase price, notwithstanding the fundraising purpose of the chocolate drive. Therefore, the sales to (contracts with) customers do not include an identifiable donation component—the transaction price is entirely related to the sales of chocolates. [See paragraph IG29 of Appendix E for a similar example.]

Example 71—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 ticket is recognised as income when the consideration from the customer is received or receivable. 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 72—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, for the following reasons (each of which would, on its own, be a sufficient reason for that conclusion):

(a) 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); and

(b) the amount of the donation component cannot be measured reliably. This is because, although the stand-alone selling price of the meal and drinks could be estimated reliably at approximately $200 per ticket, the stand-alone selling price of the opportunity to socialise cannot be estimated reliably because it is not sold otherwise than as part of the fundraising event. Prices charged by local function venues for social functions including a similar menu do not provide sufficient evidence for deriving the price of the opportunity to socialise, because they involve less prominent social events.

Because there is not an identifiable donation component of each ticket sold, the entire ticket price ($600) would be treated as the transaction price of the performance obligations created by selling each ticket. That transaction price would be recognised as revenue when the dinner is held.

Transactions that are Not Part of a Contract with a Customer

IE3 Examples 73 – 81 illustrate the requirements in paragraphs Aus129.1 – Aus129.18 and IG33 – IG94 of the [draft] Standard for accounting for transactions that are not part of a contract with a customer.

IE4 In particular, these examples illustrate the requirements in Appendix E regarding:

(a) when control is obtained over inflows of assets (paragraphs IG35 – IG55); and

(b) advance receipts of taxes, including rates (paragraphs IG84 – IG86).

Taxes and Fines

Example 73—Personal Income Tax: Control, Recognition and Measurement [*based on Examples 1 and 2 in ED 180, with a modified conclusion*]
The Australian Federal Government (reporting entity) imposes tax on personal income earned within Australia. Employers are required to withhold taxes from payroll and remit withholdings, generally on a monthly basis. Individuals with significant non-salary (for example, investment) income are required to make estimated tax payments on a quarterly basis. In addition, individuals must file a tax return with the taxation department by 31 October of the tax year (year ending 30 June) unless lodging via a tax agent, and pay the remaining tax owed (or receive a refund) shortly thereafter. The Government's annual reporting period ends on 30 June, and the Government presents audited annual consolidated financial statements to parliament each November – before many individuals' tax returns are assessed. The Government controls a resource – income tax receivable – when the taxable event occurs, which is the earning of taxable income during the taxation period by taxpayers. At the end of the reporting period, the Government recognises assets in respect of personal income tax on the taxable income earned during the reporting period to the extent that it can reliably measure it. Assets are also recognised in respect of income taxes on taxable income earned by taxpayers in prior periods, but which did not satisfy the criteria for recognition as an asset until the current reporting period. The recognition of tax assets simultaneously gives rise to the recognition of income, except to the extent that an obligation to potentially refund overpayments of tax is recognised. Overpayments can occur when tax instalments paid on estimated investment income exceed the taxpayer's eventual tax liability for the period. It may be the case that the assets arising from taxable events and the related income cannot be reliably measured until after the taxing entity's financial statements are authorised for issue. This may occur if a tax base is volatile and reliable estimation is not possible. Consequently, in those cases, the assets and income would be

recognised in a period subsequent to the occurrence of the taxable event.

Example 74— Goods and Services Tax [*same as Example 4 in ED 180*]

The Australian Federal Government (reporting entity) imposes a goods and services tax (GST) on sales of goods and services. The tax is 10 per cent of the value of goods and services sold. It is paid in quarterly or monthly instalments, depending on the taxpayer's characteristics.

The Government controls a resource – GST receivable – when the taxable event occurs, which is the sale of taxable goods and services during the reporting period. The Government recognises assets and income in the general purpose financial statements of the reporting period in which the sales and purchases take place or, if the tax receivable cannot be reliably measured as at the end of the reporting period, as soon as it subsequently can reliably measure the tax receivable.

Example 75—Land Tax [*Example 7 in ED 180, with minor edits*]

A State Government (reporting entity) levies a land tax on a progressive scale up to two per cent of the unimproved value of freehold land within its jurisdiction. The Government's annual reporting period is 1 July to 30 June. The tax is levied and assessments are issued on 31 August, based on values assessed at 30 June of the same calendar year, with notices of assessment sent to property owners in September. Payment is due by 31 December of that year.

The Government controls a resource – land tax receivable – when the taxable event (the issue of assessments) occurs – 31 August. The Government recognises the receivables and income in the financial statements of the reporting period in which that date occurs.

Example 76— Fine [*based on Example 19 in ED 180*]
A major corporation is found guilty of polluting a river. As a penalty it is required to clean up the pollution and to pay a fine of $50 million. The company has publicly announced that it will not appeal the case. The Government (reporting entity) recognises a receivable and income for the fair value of the $50 million fine receivable in the financial statements of the period in which the fine is imposed.

Donations

Acquisitions of assets involving donations

IE5 Example 77 illustrates that the recognition of income from transactions of not-for-profit entities sometimes depends on measurement requirements for those entities in other Standards, as referred to in paragraph IG60 of Appendix E. In particular, Example 77A illustrates that a potential donation component of a purchase by the entity would not be accounted for in some circumstances, in applying Standards such as AASB 116 *Property, Plant and Equipment*.

Example 77—Purchase of Property [*based on Example 15 in ED 180, with a modified conclusion*]
A not-for-profit entity purchases a parcel of land with a fair value of $1 million from a benefactor for consideration of $100,000. In its financial statements for the period in which the purchase takes place, the entity initially recognises the land at a cost of $1 million (measured at the land's fair value, in accordance with paragraph Aus15.1 of AASB 116 *Property, Plant and Equipment*), a reduction in its asset "cash" of $100,000 and donation income of $900,000 (the fair value of the donation). The land's cost is measured at its fair value because the consideration paid for the land was nominal. The transaction is not a contract with a customer of the entity. **Example 77A** In contrast to the assumed fact pattern in Example 77, if the price charged by the vendor for the same parcel of land was $800,000,

paragraph Aus15.1 of AASB 116 would not apply (because the consideration is greater than nominal) and the land would initially be recognised at a cost of $800,000.

Note to Board members: Staff plan to add an example of a lease at nominal consideration ('peppercorn lease') once the IASB issues its new IFRS on Leases. The IASB has targeted that Standard for issue during the second half of 2015.

Example 78—Financial Asset and Financial Liability [*same as Example 16 in ED 180*]

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.

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 measured at fair value. (For simplicity, transaction costs are assumed to be nil.)

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).

Volunteer services

IE6 Example 79 illustrates a community centre's considerations regarding whether and how to account for volunteer services it receives. Under paragraph IG73 of the [draft] Standard, only certain not-for-profit entities in the public sector are required to recognise volunteer services that meet specified criteria. Therefore, other not-for-profit entities, such as charities and community service organisations, are not required to recognise volunteer services, but may elect to do so if the fair value of the volunteer services can be measured reliably (see paragraph IG74).

Example 79—Volunteer Services: Community Centre [new example]
One of a community centre's programmes is providing outings and off-site vocational training on three days a week for individuals with disabilities. The community centre obtains the services of volunteer drivers for two mini-buses, each of which is in use for 6 hours per day for 3 days a week. The programme operates for 40 weeks per annum. Because of the limited grant funding for the programme, and because most other funding received by the community centre is tied to other programmes, if volunteer drivers were unobtainable, the programme would need to close. Under paragraph IG73 of the [draft] Standard, the community centre is not a type of entity that is required to recognise volunteer services if those services meet the recognition criteria in that paragraph. The community centre determines that it can reliably measure the fair value of the volunteer services received, and elects to recognise the volunteer services because recognising those services provides relevant information about the amount of resources the centre receives and consumes. The community centre estimates the fair value of the volunteer services as $35 per hour. Based on that amount, it measures the fair value of the volunteer services for the financial year as $35 × 2 (drivers) × 6 (hours) × 3 (days) × 40 (weeks), that is, $50,400. Accordingly, the community centre recognises income (donated services received) and an equivalent expense (volunteer services consumed) of $50,400 for the year. (This is the same outcome that would have occurred if the community centre received a cash donation of $50,400 and paid that amount to a contractor providing driving services.)

Control over inflows of assets

IE7 Examples 80– 81 illustrate when control is obtained over inflows of assets, according to the requirements of paragraphs IG35 – IG55.

Example 80— Pledge – Television Appeal for Public Hospital [*Example 18 in ED 180, with minor edits*]
On the evening of 30 June 20X5, a local television station conducts a fundraising appeal for a public hospital (reporting entity). The annual reporting date of the public hospital is 30 June. Television viewers

telephone or e-mail promising to send donations of specified amounts of money. At the conclusion of the appeal, $5 million has been pledged. The pledged donations are not enforceable against those making the pledge. Experience with previous appeals indicates approximately 75 per cent of pledged donations will be made.

The public hospital does not recognise any amount in its financial statements in respect of the pledges. The public hospital does not control the resources related to the pledges because it cannot direct the use of, and obtain substantially all of the remaining benefits from, the pledged resources. Therefore, it does not recognise income until the donated resources are received.

Advance receipts in transactions that are not a contract with a customer

Example 81—Advance Receipts of Local Government Rates [*Example 8 in ED 180, tailored to the Australian environment*]

A local government (reporting entity) levies rates for the rating period of 1 July to 30 June (which coincides with its annual reporting period). Ratepayers may elect to pay rates in advance of the commencement of the rating period (e.g. when they will be overseas for several months).

Rates paid in advance of the commencement of the rating period are advance receipts against future rates. The taxable event is the levying of the rates, which has not occurred. The local government recognises an increase in an asset (cash at bank) and an increase in a liability (advance receipts) for the same amount. [Regarding the proposed measurement requirements in paragraph IG85 for advance receipts of taxes, this example assumes that the time value of money is immaterial and hence disregarded.] The advance receipt liability is derecognised and rates income is recognised when the rate is levied.

Contributions by Owners

IE8 Example 82 illustrates the requirements in paragraphs Aus129.5 and IG95 – IG99 of the [draft] Standard for accounting for contributions by owners.

Example 82— Contribution by Owners [*Example 23 in ED 180, with minor edits*]
In 20X0 three neighbouring cities (local governments) form the Tri-Cities Electricity Generating Service (TCEGS) (reporting entity). The charter establishing TCEGS is binding on the city governments and provides for equal ownership, which can only be changed by agreement. The cities contribute $25 million each to establish TCEGS. These contributions satisfy the definition of a contribution by owners, which the entity recognises as such. The charter also provides for the cities to purchase the output of the TCEGS in proportion to their ownership. The purchase price is equal to the full costs of production. In 20X9, City A gives approval for the construction of an aluminium smelter within the city, which will result in a doubling of the city's electricity demand. The three cities agree to amend the charter of TCEGS to permit City A to make a contribution by owners to enable the construction of additional generating capacity. After an independent valuation of TCEGS, the cities agree that City A may make a $50 million contribution by owners and increase its ownership share to 50%, with City B and City C retaining 25% each. When the amendment to the charter becomes binding TCEGS will recognise an increase in assets of $50 million (cash or contribution by owners receivable) and a contribution by owners of $50 million.