

**Summarised key points from Roundtable discussions on  
AASB ED 260 *Income of Not-for-Profit Entities*  
Melbourne, Canberra, Brisbane and Sydney  
June 2015**

**Overall comments**

- 1 Participants strongly agreed that the income recognition model in AASB 1004 *Contributions* is flawed and needs replacing.
- 2 Generally, participants agreed that the AASB should proceed with finalising the proposals in ED 260 *Income of Not-for-Profit Entities*, notwithstanding that some disagreed with certain proposed principles. The main concern expressed by participants was that the ED does not go far enough in identifying liabilities when a not-for-profit entity receives assets on the condition that those assets be used in a generic way and/or expended over a specified period.
- 3 Some participants expressed concern that the level of specification required of a 'sufficiently specific promise' may have unintended consequences and give rise to a GST obligation.
- 4 Some participants expressed concerns with particular examples used to illustrate the application of the proposals in ED 260; for example, the robustness of the examples and terminology used in the ED.

**Identifying performance obligations (contract liabilities) owed to customers**

Enforceability

- 5 Participants generally agreed that enforceability is essential for a performance obligation to arise. That is, if an entity is required to expend transferred money during a specified period and:
  - (a) there is no enforcement mechanism of that condition, the entity does not have a liability; and
  - (b) there is an enforcement mechanism of that condition, the entity has a liability.

However, there was plenty of discussion around the need to clarify what is meant by enforceability.

- 6 In this regard, enforcement is not limited to the transferor having the power to demand a refund. For example, the transferor might be able to sue for specific performance of a promise.

Sufficiently specific promise

- 7 In relation to the 'sufficiently specific promise' principle for a not-for-profit entity proposed in ED 260:

- (a) some participants expressed the view that enforceability of a condition that transferred resources must be spent or consumed by the entity should be the only essential characteristic of a performance obligation;<sup>1</sup> and
  - (b) other participants argued that, when a not-for-profit entity has a charter to provide a narrow range of services, and a transferor provides funding on the enforceable condition that the entity provides services in accordance with its charter, the absence of a more specific specification regarding the goods or services to be provided should not prevent identification of a performance obligation.
- 8 Some other participants argued that funding raised for a specific future period should be accounted for as deferred income until that period, regardless of whether expenditure during that period is enforceable or whether the entity has promised to transfer specific goods or services. They argued that the matching concept should be applied, because not-for-profit entities have an implied obligation to use funds raised in respect of a publicly announced purpose or period. One example given was the accelerated payments of quarterly financial assistance grants paid by the Australian Government to local governments shortly before the end of a period.
- 9 Yet other participants argued that not-for-profit entities such as charities hold every dollar they receive in trust for providing services within their remit and accordingly all revenue should be deferred.

#### **Donation components of contracts with customers**

- 10 Diverse views were expressed by participants regarding:
- (a) whether separately identifiable donation components of contracts with customers should be accounted for separately from revenue that arises from settling the performance obligations in the contract; and
  - (b) how separately identifiable donation components should be identified (see paragraphs 12 and 13 below).
- 11 Some participants argued that separately identifiable donation components should be accounted for separately from revenue, particularly if those components have been identified separately for tax deductibility by the customer. Some other participants argued that accounting separately for donation components does not provide information sufficiently useful to justify the cost.
- 12 Some participants disagreed with performing a qualitative assessment of whether a donation component is separately identifiable (based, in part, on whether the customer intended to make a donation). They argued that it is illogical and unworkable to impose a ‘customer’s intention’ test for separately identifying a donation component.

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<sup>1</sup> For example, if an entity receives a transfer on the enforceable condition that it be spent during a specified period in accordance with the entity’s charter (no matter how broad that charter may be) or returned, it must have a liability.

- 13 Other participants argued that the ‘intention’ test is appropriate because it would save entities the cost of endlessly scrutinising prices in contracts to assess whether, implicitly, a donation component exists.
- 14 Mixed views were expressed about the role of refundability of donation components if the promised goods or services are not provided, when assessing whether a donation component is separately identifiable. Some participants agreed with the emphasis in ED 260 on this factor, whereas others argued that it can be unclear, before a breach occurs, whether an amount is refundable.

### **Measuring non-financial assets at fair value on initial recognition**

- 15 The proposed requirement to initially measure at fair value non-financial assets received was discussed using the example of a finance lease with ‘peppercorn’ lease payments. Mixed views were expressed regarding whether initial measurement at fair value provides sufficient information to justify the cost. Some participants argued the information is not useful to users of financial statements. Other participants disagreed, arguing that it is important for users of financial statements to be aware of the resources deployed by not-for-profit entities. Some participants also argued that donations of cash and non-cash resource resources should be treated consistently, and therefore supported the fair value proposal in ED 260. Some other participants raised questions about the proposed accounting treatment of donated inventory.

### **Transition**

#### Retrospective application of fair value on initial recognition

- 16 Most participants strongly disagreed with the proposed lack of transition relief and argued that some relief should be provided. Specific comments by participants included:
- (a) it will often be difficult to establish, years after assets were acquired, whether the cost of acquisition of a non-financial asset was less than fair value, or whether the grant should have been deferred or not. Research grants and finance leases with peppercorn lease payments were examples identified by some participants. Therefore, on initial application of AASB 10XX, fair value should be determined at the beginning or end of either the initial period of application or the comparative period;
  - (b) if remeasurements to fair value do not occur to an opening balance, revenue measures (often used as regulatory metrics) would be distorted; and
  - (c) the transitional provisions should be consistent with those included in the new Standard on Leases.

#### AASB 15 transition relief

- 17 Some participants questioned why the transition relief in AASB 15 was not available.

## Effective date of AASB 10XX

- 18 Some participants noted that the proposals in [draft] AASB 10XX will need a significant amount of time to implement and will require systems changes. Participants noted the AASB's proposal in ED 263 that AASB 15 should be effective for annual reporting periods beginning on or after 1 January 2018, and that AASB 10XX is likely to have the same effective date. Nevertheless, some participants expressed the view that a time period longer than that might be needed to adapt to the new requirements implied by this tentative timetable.

## **Volunteer services**

- 19 Participants who commented on volunteer services expressed mixed views regarding whether volunteer services should be reported in financial statements:
- (a) some participants argued that information about volunteer services (including hours worked) is useful to users of financial statements of not-for-profit entities. One participant noted information about volunteer services is a useful input when making grant decisions. Some indicated that it might be more appropriate to report that information outside the entity's financial statements (e.g., as unaudited information within the service performance report) while others noted the link between an entity's level of reliance on volunteer services and its ability to operate into the future;
  - (b) some participants disagreed with those mentioned in (a) above, arguing that recognising volunteer services distorts the financial statements and involves inherently unreliable estimates of the value of volunteer services. Some questioned the cost-benefit of accounting for volunteer services; and
  - (c) other participants argued that volunteer services should only be recognised as income if the entity would have purchased them if they were not donated.
- 20 Some participants noted that the Australian Charities and Not-for-profit Commission is progressing its work on requiring reporting by charities of volunteer service information.

## **Contributions by owners**

- 21 Regarding whether the definition of 'contributions by owners' in AASB 1004 should be omitted from Australian Accounting Standards, those participants who commented expressed the view that:
- (a) the definition in AASB 1004 can be problematic. Therefore, some participants favoured the use of an improved definition. Others indicated that without a definition, or guidance, some governments may choose to issue their own guidance in this area ;
  - (b) the requirements in AASB 1004 for restructures of administrative arrangements should be:
    - (i) retained to avoid uncertainty for practitioners (some participants); or

- (ii) omitted because:
  - (A) they are consistent with the treatment in practice of business combinations under common control (BCUCC), which has developed appropriately without any specific requirements; and
  - (B) they do not address the measurement basis for assets and liabilities in such restructures, which is a key issue when accounting for such restructures and for BCUCC generally (other participants).