



Project:	Income of Not-for-Profit Entities	Meeting	AASB October 2015 (M148)
Topic:	Redeliberations – AASB 120, Scope, Enforceable Agreement and Sufficiently Specific	Agenda Item:	13.2
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Introduction and objective of this paper

- 1 The objective of this paper is to obtain Board decisions by considering:
 - (a) the Board’s decision not to make AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* available to not-for-profit entities;
 - (b) clarifying the scope of the final Standard AASB 10XX;
 - (c) clarifying the meaning of ‘enforceable agreement’; and
 - (d) whether to clarify the meaning of ‘sufficiently specific’ in the final AASB 15 *Revenue from Contracts with Customers* Implementation Guidance.
- 2 This paper is structured as follows:
 - (a) Summary of staff recommendations (paragraph 3)
 - (b) Background (paragraphs 4-11)
 - (c) Feedback received on ED 260 *Income of Not-for-Profit Entities* (paragraphs 12-20)
 - (d) Staff analysis (paragraphs 21-44)
 - (e) Staff recommendations and questions for the Board (paragraph 45)
 - (f) Appendix: ED 260 proposals¹

¹ The link to ED 260 *Income of Not-for-Profit Entities* is http://www.aasb.gov.au/admin/file/content105/c9/ACCED260_04-15.pdf

Summary of staff recommendations

- 3 The staff recommend the following:
- (a) that ED 260 paragraph BC14 adequately expresses the reasons why the Board decided to continue to exclude not-for-profit entities from the scope of AASB 120 and. Therefore, that wording should not be amended when incorporated into the Basis for Conclusions to AASB 15 and the final Standard AASB 10XX;
 - (b) that the scope of the final Standard AASB 10XX be clarified by adding:
 - (i) guidance to the AASB 15 Implementation Guidance; and
 - (ii) an example to the Australian Illustrative Examples for Not-for-Profit Entities (Illustrative Examples);
 - (c) that the meaning of ‘enforceable agreement’ be clarified:
 - (i) by clarifying the meaning of ‘equivalent means’ by:
 - (A) amending paragraph IG4 to the AASB 15 Implementation Guidance; and
 - (B) adding an example to the Illustrative Examples;
 - (ii) by clarifying the relationship of an enforceable agreement and a ‘constructive obligation’; and
 - (iii) for bequests with an ‘in perpetuity’ condition attached by adding guidance to the AASB 15 Implementation Guidance; and
 - (d) that the meaning of ‘sufficiently specific’ be clarified for time-based inflows and inflows that include a return obligation by:
 - (i) adding guidance to the AASB 15 Implementation Guidance;
 - (ii) adding an example to the Illustrative Examples; and
 - (iii) including in the AASB 15 Implementation Guidance a practical expedient that the presence of a return obligation is evidence that an agreement is a sufficiently specific promise.

Background

- 4 Appendix A to this Agenda Paper outlines the proposals in ED 260 relevant to this paper.

Application of AASB 120

- 5 ED 260 paragraph BC14 notes the following reasons for the Board’s decision to not adopt a strictly transaction neutral approach (that is, applying the requirements of AASB 120):

- (a) that AASB 120 does not address inflow transactions that are not government grants and government assistance;
- (b) the concern that application of the recognition and presentation requirements in that Standard could result in an entity's assets being materially understated; and
- (c) that AASB 120 does not clarify when the conditions attaching to a grant should be considered to have been met.

Scope

- 6 ED 260 paragraph BC20 notes that except for revenue within the scope of AASB 15 or another Australian Accounting Standard, the final Standard AASB 10XX applies to the revenue and other income of not-for-profit entities.

Enforceability

- 7 ED 260 paragraph IG3 notes that an inherent feature of a contract with a customer is that it is the promises in an agreement that create enforceable rights and obligations. Paragraph IG4 notes that an agreement can be enforceable through legal or equivalent means. Paragraph BC22 notes that the Board decided to add paragraphs IG3-IG8 to help entities identify whether an agreement creates enforceable rights and obligations.
- 8 ED 260 paragraph BC23 states that paragraphs IG4(b) and IG5 note that an obligation to return consideration that accompanies a not-for-profit entity's promise to transfer goods or services would make the agreement enforceable.
- 9 ED 260 paragraph AG9 notes whether the initial recognition of bequeathed items as assets simultaneously gives rise to recognition of income will depend on whether a liability of the entity arises from the bequest (for example, the entity has a performance obligation under a contract with a customer, to be accounted for in accordance with AASB 15, 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).

Sufficiently specific

- 10 ED 260 paragraph BC35 notes that a time-based condition 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 specified.
- 11 ED 260 paragraph IG18 notes that the consequence of not satisfying the 'enforceable arrangement' criteria or the 'sufficiently specific' criteria is that the entity shall account for the promise in accordance with the requirements in the final Standard AASB 10XX.

Feedback received on ED 260

- 12 The staff summary of the feedback received on ED 260 was presented to the Board at the September 2015 meeting.²
- 13 Most constituents were supportive of the proposal to remove the current income recognition requirements based on the reciprocal / non-reciprocal transfer distinction in AASB 1004 *Contributions*. Some constituents commented that the approach described in AASB 120 might be more readily applicable to non-reciprocal contributions received by not-for-profit entities (whether from government or non-government contributors). Nonetheless, most constituents supported the inclusion of a requirement based on satisfying a performance obligation.
- 14 The questions from some constituents can be categorised as questions about the scope of AASB 15 as it applies to not-for-profit entities. A not-for-profit entity would apply AASB 15 when the transaction occurs in a contract, and the contract includes promises by the entity to transfer goods or services to the customer. The staff summary of the feedback received on ED 260 notes that one constituent asked for clarification as to whether an enforceable agreement to perform specified activities is a promise to transfer goods or services and, therefore, within the scope of AASB 15.
- 15 Other constituents noted that the ED:
- (a) does not clearly articulate the relationship of ‘legal or equivalent means’ and suggested that ED 260 is not clear what is meant by ‘equivalent means’.
 - (b) does not address ‘constructive obligations’. Some constituents have asked is an obligation that is enforceable by ‘equivalent means’ different from a ‘constructive obligation’ as defined in AASB 137 paragraph 10?³
- 16 One constituent expressed the position that as intention can be implicit it therefore considers that notwithstanding that untied grants to local government Councils are not legally tied to a performance obligation, the substance of the transactions are such as that the grants are intended by the grantor and grantee to be used to fund operating expenses over the period specified by the grantor. This intention is reflected in the words and actions of all parties. Accordingly, the grant should be treated as revenue in the period in which these expenses are intended to be incurred.

² The link is available at http://www.aasb.gov.au/admin/file/content102/c3/M147_14.2_Staff_Collation_and_Analysis_of_Comment_Letters_ED_260.pdf

³ A constructive obligation is an obligation that derives from an entity’s actions:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

- 17 ED 260 does address the issue of bequests. Some constituents note that sometimes some not-for-profit entities receive donations where an ‘in perpetuity’ condition set out in a Deed of Gift, a Will or a Bequest, is placed on the recipient. Those constituents were concerned that where the agreement gives rise to ‘in perpetuity’ conditions, it is possible that the specific promise to the agreement can never be satisfied.
- 18 The ED notes that a return obligation would make the agreement legally enforceable. Some constituents noted that the existence of a refund obligation may indicate the existence of a sufficiently specific promise to transfer goods or services to other parties. This is because if the promises in the transaction are not sufficiently specific, it is unlikely to be possible to objectively determine the consideration to be returned.

Excluding not-for-profit entities from the scope of AASB 120

Staff analysis

- 19 Staff are of the view that the wording in paragraph BC14 adequately expresses the reasons why the Board decided to continue to exclude not-for-profit entities from the scope of AASB 120 and therefore should be retained without change in the final Basis for Conclusions to AASB 15 and the final Standard AASB 10XX. Staff examined previous stages of this project including issued EDs and did not identify any additional reasons articulated by the Board for not extending the scope of AASB 120 to include not-for-profit entities.

Staff recommendation

- 20 The staff recommend that the proposed wording of paragraph BC 14 be incorporated into the Basis for Conclusions to AASB 15 and the final Standard AASB 10XX.

Question 1 to Board members

Do Board members agree with the staff recommendation?

Clarification of the scope of the final Standard AASB 10XX

Staff analysis

- 21 A not-for-profit entity would apply AASB 15 when the transaction occurs in a contract and the contract includes promises by the entity to transfer goods or services to the customer (i.e., performance obligations). Otherwise, the final Standard AASB 10XX will apply. Illustrative Examples 5A and 5B provide some guidance on interpreting what constitutes goods or services by identifying ‘outputs’ and ‘outcomes’ as services. Therefore, a transaction that occurs in a contract that identifies ‘outputs’ and ‘outcomes’ as performance obligations is within the scope of AASB 15 and not the final Standard AASB 10XX.
- 22 However, staff note that the ED does not make clear whether an ‘activity’ is a service. For example, a medical research grant agreement between a grantor and a university specifies that the project deliverables are the conduct of research of a specified

medical issue (the ‘activity’), the reporting on progress towards milestones and outcomes set by the grantor and the publication of results in scholarly journals or through conference presentations. The University retains the intellectual property discovered by the project. A return obligation for unspent money is part of the agreement.

Staff recommendation

- 23 Given the feedback received on ED 260, staff recommend that the scope of the final Standard AASB 10XX should be clarified by:
- (a) adding guidance on interpreting what constitutes goods or services to the AASB 15 Implementation Guidance and that added guidance address ‘outputs’, ‘outcomes’ and ‘activities’;
 - (b) the addition of an example that addresses ‘activity’ to the Illustrative Examples.

Question 2 for Board members

Do Board members agree with the staff recommendation?

Clarification of the meaning of ‘enforceable agreement’ by ‘equivalent means’

Staff analysis

- 24 The ED uses the expression “through legal or equivalent means” but does not define the either term. Some constituents have suggested that ED 260 is not clear as to what is meant by ‘equivalent means’.⁴ Staff note that, as the ED does not use the term ‘constructive obligation’, it is not clear as to whether the term ‘equivalent means’ would also include constructive obligations.
- 25 In the absence of clarity about the relationship of ‘equivalent means’ and ‘legal means’, it is not clear whether an agreement that is expressly deemed by the parties to not be enforceable by one enforcement mechanism is therefore not enforceable by another enforcement mechanism.

Staff recommendation

Given the feedback received on ED 260, staff recommend clarifying the meaning of ‘enforceable agreement’ by ‘equivalent means’ by amending paragraph IG4 to the AASB 15 Implementation Guidance to explain the expression “through legal or equivalent means” including the relationship of the two terms and by the addition of an example to the Illustrative Examples.

⁴ Staff understand that Specific Purpose Payment (SPP) Grants are one example of agreements enforceable by equivalent means. SPP Grants are administrative and political agreements whereby the Commonwealth Government impose conditions on grants to state and territory governments. SPP Grants are not legal agreements and not enforceable by the Commonwealth through legal means.

Question 3 for Board members

Do Board members agree with the staff recommendation?

Clarification of the meaning of ‘enforceable agreement’ when a ‘constructive obligation’ is present

Staff analysis

- 26 Some constituents have asked whether the presence of a constructive obligation gives rise to an enforceable agreement. Staff consider that the Board’s decision on the clarification of the term ‘equivalent means’ is relevant to whether the presence of a ‘constructive obligation’ is a feature that should be part of the guidance for not-for-profit entities on when an agreement creates enforceable rights and obligations.

Staff recommendation

- 27 Given the feedback received on ED 260, staff recommend clarifying the meaning of ‘enforceable agreement’ and its relationship to ‘constructive obligation’.

Question 4 for Board members

Do Board members agree with the staff recommendation?

Clarification of the meaning of ‘enforceable agreement’ for bequests with an ‘in perpetuity’ condition attached

Staff analysis

- 28 The ED proposed that recognition of income from a bequest will depend on whether a liability of the entity arises from the bequest (for example, the entity has a performance obligation under a contract with a customer, to be accounted for in accordance with AASB 15, 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).
- 29 Staff understand that for bequests with an ‘in perpetuity’ condition, donors will often impose conditions such as maintenance of the corpus in perpetuity and where there is an ‘in perpetuity’ condition, to spend the investment proceeds derived from the corpus and after maintaining the current value of that corpus, for a particular purpose (e.g., to fund a scholarship in perpetuity).
- 30 Staff note that some constituents are concerned that where the agreement gives rise to ‘in perpetuity’ conditions, it is possible that the specific promises to the agreement can never be satisfied. This issue arises since on receipt of the donation, the satisfaction of the performance conditions cannot be met at that time, or at any future time, as there is no readily identifiable time period in which the conditions can ever be met.⁵

⁵ Staff analysed the financial statements of a small number of universities. The findings were that it is the current accounting policy of these entities to recognise bequests as income in the

- 31 The staff are of the view that the meaning of ‘enforceable agreement’ for bequests with an ‘in perpetuity’ condition attached should be clarified by clarifying whether the requirement to use the bequeathed items in a particular manner is by for example the establishment of an ‘in perpetuity’ annual scholarship or its annual awarding to successful applicants by adding guidance to the Implementation Guidance for AASB 15.

Staff recommendation

- 32 Given the feedback received on ED 260, the staff recommend clarifying the meaning of ‘enforceable agreement’ for bequests with an ‘in perpetuity’ condition attached by adding guidance to the AASB 15 Implementation Guidance;

Question 5 for Board members

Do Board members agree with the staff recommendation?

Clarification of the meaning of ‘sufficiently specific’ for time-based inflows and inflows that include a return obligation

Staff analysis

- 33 The staff are of the view that the meaning of ‘sufficiently specific’ for time-based inflows and inflows that include a return obligation should be clarified by adding guidance to the AASB 15 Implementation Guidance, the addition of an example to the Illustrative Examples and by the inclusion of a practical expedient that the presence of a return obligation is evidence that an agreement is a sufficiently specific promise.
- 34 The staff note that some participants at the ED 260 roundtables argued that for time-based inflows, 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.
- 35 The ED notes that a return obligation would make the agreement legally enforceable. Some constituents noted that the existence of a refund obligation may indicate the existence of a sufficiently specific promise to transfer goods or services to other

year of receipt or when the entitlement to receive the funds has been established. Some of those universities do (or have in the past) present in the statement of financial position as restricted funds any open bequests containing conditions that specify a use that is not general.

Staff note that the Australian Government Department of Education and Training keeps statistics on individual and whole of sector university financial information and that the data the department keeps is not retrospectively changed to reflect restatements to previous years. The Department notes that this is a problem for the users of its time-series information which includes government, universities, researchers and students.

parties. This is because if the promises in the transaction are not sufficiently specific, it is unlikely to be possible to objectively determine the consideration to be returned.

- 36 The staff view is that it is appropriate that the AASB 15 Implementation Guidance include a practical expedient that the presence of a return obligation is evidence that an agreement is a sufficiently specific promise.

Staff recommendation

- 37 Given the feedback received on ED 260, staff recommend:

- (a) clarifying in the AASB 15 Implementation Guidance 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 and adding an example to the Illustrative Examples; and
- (b) include a practical expedient that the presence of a return obligation is evidence that an agreement is a sufficiently specific promise.

Question 6 for Board members

Do Board members agree with the staff recommendation?

Appendix: ED 260 proposals

Exclusion of not-for-profit entities from the scope of AASB 120

Alternative Approaches Considered

AASB 120 Accounting for Government Grants and Disclosure of Government Assistance

BC14 The AASB considered whether to propose extending the scope of AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, which incorporates IAS 20 (of the same title), to include not-for-profit entities. AASB 120 presently applies only to for-profit entities. The AASB noted that such an extension would result in government grants being accounted for under a strictly transaction-neutral approach. However, the AASB reaffirmed its decision made in 2004 (when adopting International Financial Reporting Standards in Australian Accounting Standards) to exclude not-for-profit entities from the scope of AASB 120, because:

- (c) AASB 120 addresses only government grants and government assistance, and therefore does not address taxes and many other forms of transfers. Income from taxes and transfers other than government grants is more likely to have a material impact on the financial statements of not-for-profit entities than on the financial statements of for-profit entities;
- (d) application of the recognition and presentation requirements in that Standard could result in an entity's assets being materially understated. For example:
 - (i) government grants of non-monetary assets may be measured at a nominal amount;
 - (ii) government grants relating to assets may be deducted in determining the carrying amount of the assets; and
 - (iii) grants are not to be recognised by an entity until there is reasonable assurance that the entity will comply with the conditions attaching to the grants and the grants will be received (however, conditions attaching to grants are relevant to whether liabilities exist, not to whether assets have been received); and
- (e) AASB 120 focuses on recognition of deferred income, without specifying the nature of obligations to be recognised as liabilities. Thus, it does not distinguish performance obligations and refund obligations, and therefore does not clarify when the conditions attaching to a grant should be considered to have been met.

Scope of the final Standard AASB 10XX

Scope

Not-for-entities

BC19 The scope of this ED is limited to not-for-profit entities (whether in the private sector or the public sector). In accounting for government grants, for-profit entities would apply the requirements of AASB 120. The AASB noted that, in the absence of a Standard applying to a transaction or event, a for-profit entity should develop an accounting policy in the same way that it would for any issue – in accordance with the requirements on the selection of accounting policies set out in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Depending on the nature of the transaction or event, a for-profit entity would refer to, and consider the applicability of, AASB 10XX.

Income

BC20 In addition to applying to revenue of not-for-profit entities (except revenue within the scope of AASB 15 or another Australian Accounting Standard), this ED applies to other income of not-for-profit entities. This is because:

- (a) revenue is defined in AASB 15 as income arising in the course of an entity's ordinary activities, consistent with its definition in superseded Standard AASB 118 *Revenue*;
- (b) the AASB noted that some types of income of not-for-profit entities (such as bequests and other donations, which presently fall within the scope of AASB 1004) can arise from transactions and other events outside the course of an entity's ordinary activities. Limiting the scope of this ED to revenue of not-for-profit entities would therefore omit guidance on potentially significant types of income of not-for-profit entities and only partially meet the AASB's objective to replace the income recognition requirements of AASB 1004; and
- (c) the AASB concluded that the proposed principles in Part B of this ED are equally appropriate for:
 - (i) revenue of not-for-profit entities that is not revenue from a contract with a customer; and
 - (ii) other income of not-for-profit entities that is not recognised under another Australian Accounting Standard.

Clarification of the meaning of 'enforceable agreement'

Identifying whether a Contract with a Customer Exists

Enforceable agreement

IG3 An inherent feature of a contract with a customer is that the entity makes promises in an agreement that creates enforceable rights and obligations. Paragraphs IG4-IG8 provide guidance for not-for-profit entities on when an agreement creates enforceable rights and obligations.

IG4 An agreement 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 agreement. An agreement is enforceable by another party through legal or equivalent means if, for example:

- (a) the customer, or another party acting on its behalf, has a right to enforce specific performance; or
- (b) a mechanism exists to provide a party with legal authority to require the entity to either transfer the promised goods or services or compensate it for not transferring those goods or services (see also paragraph IG5). In this regard:
 - (i) legal authority to require a transfer of goods or services would be sufficient for an agreement to be enforceable by another party through legal or equivalent means; and
 - (ii) an example of such a mechanism is 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.

IG5 In relation to paragraph IG4(b), compensation for failing to transfer promised goods or services could be either a return of consideration or a penalty for non-performance that is sufficiently severe to compel the entity to fulfil its promise to transfer goods or services. In some circumstances, where rights to specific performance are unavailable or unnecessary, the authority to require compensation may be the key determinant of the enforceability of an agreement 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.

IG6 Identification of an agreement as being enforceable by another party through legal or equivalent means does not require a history of enforcement of similar agreements by the customer or even an intention of the customer to enforce its rights. A customer might choose not to enforce its rights against an entity. However, that decision is at the customer's discretion, and does not affect the enforceability of the customer's contractual rights. Enforceability depends solely on the customer's capacity to enforce its rights.

IG7 In contrast to the factors in paragraph IG4, the following circumstances would not, of themselves, cause an agreement 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 makes a statement of intent to spend money or consume assets in particular ways. A statement of intent would, of itself, be insufficient to cause an agreement to be enforceable, even if that statement is the subject of budget-to-actual reporting and of other oversight mechanisms to discharge accountability for the raising and expenditure or consumption of assets.

IG8 In relation to paragraph IG7(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 'net settle' 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.

Voluntary transfers

Bequests

AG8 A bequest is a transfer made according to the provisions of a deceased person's Last Will and Testament (Will). Bequeathed items are recognised as assets when:

- (a) the entity has obtained a present legal right to, and therefore control of, the bequeathed items. This occurs when probate has been granted and, depending on the facts and circumstances, either the period for challenging the Will has expired or the Will has been challenged and it is legally determined that the entity is entitled to particular assets or amounts;
- (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.

AG9 Assessing the probability of an inflow of future economic benefits may be problematic if a period of time elapses between the entity obtaining a present legal right to bequeathed items and receiving any assets. The entity shall assess whether the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. 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 entity arises from the bequest (for example, the entity has a performance obligation under a contract with a customer, to be accounted for in accordance with AASB 15, 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 satisfied¹).

Enforceable rights and obligations

BC22 AASB 15 states that a contract is an agreement between two or more parties that creates enforceable rights and obligations. The AASB decided to add not-for-profit

¹ See the guidance on a 'sufficiently specific' promise to transfer a good or service to a customer, in paragraphs IG13–IG17 of 'Appendix E [for AASB 15]' in Part A of this Exposure Draft. Bequests are discussed in this [draft] Standard, because bequests typically would not give rise to performance obligations and therefore typically would not occur in contracts with customers. For bequests involving performance obligations (eg a hospital's obligation to use bequeathed funds to finance the construction of a new wing of a building), AASB 15 would apply and the customer would be the trustee of the deceased estate, acting on behalf of the deceased person.

entity-specific guidance in paragraphs IG3-IG8 of Appendix E of Part A of the ED to help entities identify whether an agreement creates enforceable rights and obligations. This is because:

- (a) some mechanisms for enforcing a not-for-profit entity's promises to transfer goods or services are unique to entities (typically not-for-profit) in the public sector. For example, Ministerial directives might be employed to compel promised transfers of goods or services by a not-for-profit entity; and
- (b) some agreements between different levels of government might rely on a common purpose, without the transferor funding a programme necessarily having the power to enforce the transferee entity's promises to provide goods or services.

BC23 Paragraphs IG4(b) and IG5 of Appendix E note that an obligation to return consideration that accompanies a not-for-profit entity's promise to transfer goods or services would make the agreement enforceable. If a transferor in an agreement presently holds rights to a refund or other compensation in the event of the transferee entity's non-performance, the transferor might choose to for convenience to 'net settle' by deducting the refund amount from a future transfer. Cancelling future funding to which the entity is presently entitled is a cancellation of a debt owed to the entity and is, in substance, a refund of promised consideration. Therefore, the capacity to cancel future funding to which the entity is presently entitled would make the arrangement enforceable by legal or equivalent means.

BC24 The capacity referred to in paragraph BC23 is substantially different from a transferor's capacity to withhold future funding to which the entity is not presently entitled. This is a capacity not to undertake an expected future transaction, and is a source of economic compulsion for the entity. Economic compulsion is not, of itself, a source of enforceability of a promise. In other words, circumstances affecting possible future transactions are not a feature of existing contractual rights and obligations.

BC25 The AASB observed that, if economic compulsion were sufficient to make a promise enforceable, a government's explicit and implicit promises to provide social benefits (such as age pensions, and health and education services) would qualify as enforceable obligations. Consequently, a government would identify liabilities for benefits members of the community have yet to qualify to receive, but the government is economically compelled to provide at some point in the future (for example, on an aggregate basis, there is no doubt that of those already born, a significant percentage will survive to qualify for the aged pension and will need to receive various health services). The AASB considers that identifying liabilities so broadly would not provide useful information about a government's present financial position, although information about likely future transfers of social benefits would be useful for long-term fiscal sustainability reporting.

Guidance on obtaining control of an asset

Control of a bequeathed item

BC59 Paragraph AG10(a) of Part B of the ED states that control of an item bequeathed to the entity is obtained when probate has been granted and, depending on

the facts and circumstances, either the period for challenging the Last Will and Testament (Will) has expired or the Will has been challenged and it is legally determined that the entity is entitled to particular assets or amounts. The AASB noted that some argue that control of a bequeathed item is obtained upon the death of the deceased person who made the Will. They express this view on the basis that the entity has a privileged position of being named as a beneficiary in a Will. However, the AASB noted that:

- (a) the asset to account for is a receivable. This is a different asset from the intangible benefit that an entity has of being named as a beneficiary in a Will (such benefit exists before the death of the testator). Recognition of such intangible benefits would involve a broader view of intangible assets than that reflected in AASB 138, and it is unclear whether the benefits of their recognition would exceed the related costs (see also (c) below);
- (b) until no other party holds a right to challenge the Will, the entity does not have an enforceable right to receive the bequeathed items; and
- (c) requiring entities to recognise bequeathed items before probate has been granted would impose an obligation to account for inflows of assets that an entity might be unaware of. In addition, requiring recognition of inflows of assets that might be challenged by another party would impose unnecessary costs. In relation to views of some that bequeathed items should be recognised before the entity has an enforceable claim to those items, the AASB considers that, in view of:
 - (i) the irregular nature of bequests; and
 - (ii) the fact that not-for-profit entities generally would not rely on bequests as a source of recovery of the costs of the goods and services they provide to beneficiaries, waiting until the entity has an indisputable claim to those assets before recognising bequeathed items is appropriate to ensure the benefits of providing that information exceed the related costs.

Clarification of the meaning of 'sufficiently specific'

Identifying Whether a Performance Obligation Exists

Sufficiently specific promise

IG13 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 obligation is satisfied. Judgement is required in assessing whether a promise is sufficiently specific. Such judgement takes into account any conditions specified regarding the promised goods or services, including conditions regarding the following aspects:

- (a) the nature or type of the goods or services;
- (b) the cost or value of the goods or services;

- (c) the quantity of the goods or services; or
- (d) the period over which goods or services must be transferred.

IG14 Whether a promise is sufficiently specific to qualify as a performance obligation will depend on the circumstances. No specific number or combination of the aspects mentioned in paragraph IG13 needs to be specified in an agreement if the promise is to be sufficiently specific.

IG15 In relation to paragraph IG13(d), a condition that a not-for-profit entity must transfer unspecified goods or services within a particular 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 period must also be specified. For example, a transfer to be used by a not-for-profit entity for any purpose in its operations would not meet the ‘sufficiently specific’ criterion.

IG16 As mentioned in paragraph IG4, a promise to transfer goods or services can qualify as a performance obligation without being enforceable, provided it is part of an agreement that can be enforced 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. Paragraphs IG15 and IG 17 note circumstances in which a condition on a transfer of assets to an entity might not be sufficiently specific to qualify as a performance obligation.

IG17 An acquittal process in relation to transferred assets (in which the entity provides a statement to the transferor on how it used the transferred assets) might be indicative of a promise to transfer goods or services that is both part of an ‘enforceable’ arrangement and ‘sufficiently specific’. However, of itself, an acquittal process is not necessary to ensure a performance obligation exists. Furthermore, depending on the level of detail of acquittal (compared with the principle and aspects referred to in paragraph IG13), an acquittal process might not provide sufficient evidence that a performance obligation exists.

Consequence of not satisfying the ‘enforceable arrangement’ and ‘sufficiently specific’ criteria

IG18 If a not-for-profit entity’s promise to transfer a good or service is made in an unenforceable arrangement with another party, a contract with a customer does not exist. If a not-for-profit entity’s promise to transfer a good or service in an arrangement with another party fails the ‘sufficiently specific’ criterion discussed in paragraphs IG13-IG17, that entity shall not treat the promise as a performance obligation in a contract with a customer. In either case, the entity shall account for the promise in accordance with the requirements for donations in [draft] AASB 10XX.

Performance Obligations

Sufficiently specific specification

BC30 Some transfers of assets to not-for-profit entities are provided with no, or minimal, specifications regarding how the transferred assets must be used, provided that the assets are used for purposes consistent with the entity’s service-delivery objectives as set out in its constitution or enabling legislation (where applicable). For

example, a charity may have the discretion to change the goods or services to be provided using donated assets, even when the donations are received in specific-purpose fundraising appeals, to enable the charity to redirect aid to those in greatest need as circumstances change. Some other transfers to not-for-profit entities are provided with a specification only that the funds are to be expended within a specified time period. For these reasons, it can be difficult to distinguish goods or services provided to meet these general specifications from any of the not-for-profit entity's other goods or services provided.

BC31 The circumstances described in paragraph BC30 are much more prevalent in the not-for-profit sector than the for-profit sector, and raise issues regarding which specifications attached to assets transferred to a not-for-profit entity give rise to performance obligations. The AASB decided to state a principle that, to qualify as a performance obligation, a not-for-profit entity's contractual promise to transfer goods or services must be sufficiently specific to be able to determine when the obligation is satisfied.

BC32 The AASB also decided to include proposed not-for-profit entity guidance:

- (a) noting that applying the 'sufficiently specific' criterion requires judgement; and
- (b) identifying particular conditions to consider in determining whether a promise is 'sufficiently specific' to qualify as a performance obligation.

BC33 The AASB considered whether to identify particular conditions as essential for treating a promise to transfer a good or a service as to be treated as 'sufficiently specific'. The AASB concluded that:

- (a) no particular condition regarding a promise to provide a good or service would ensure the proposed principle in paragraph BC31 is met; and
- (b) prescribing condition(s) that are necessary to make a promise 'sufficiently specific' might arbitrarily and unintentionally exclude some performance obligations from being identified as such.

BC34 For example, the AASB:

- (a) noted that paragraph 26 of AASB 15 states that: "Depending on the contract, promised goods or services may include, but are not limited to ... (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"; and
- (b) concluded that, if particular aspects of a 'sufficiently specific' promise identified in paragraph IG13 (such as the cost, value or quantity of the goods or services to be transferred) were to be mandatory, a not-for-profit entity's promise to provide a service of standing ready to provide an unspecified good or service might be treated as 'insufficiently specific' to qualify as a performance obligation. This outcome would be inconsistent with the AASB's policy of transaction neutrality.

BC35 One of the aspects to consider in assessing whether a promise is ‘sufficiently specific’ to qualify as a performance obligation is a specified period over which promised goods or services must be transferred (see paragraph IG13(d) of Appendix E). In relation to that aspect, the AASB concluded that a condition 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 specified. This is because time does not require an outflow of resources embodying economic benefits (the definition of a liability in the AASB Framework for the Preparation and Presentation of Financial Statements requires an outflow of resources in settlement of the obligation). Rather, the AASB considers that such a stipulation is, in substance, an indication that the transferor does not intend to make similar future transfers to the entity for a defined period of time.

BC36 The AASB considered whether its view in paragraph BC35 is consistent with treating as ‘sufficiently specific’ a not-for-profit entity’s promise to provide a service of standing ready to provide an unspecified good or service. The AASB concluded that a promise to provide a service of standing ready to provide an unspecified good or service is substantially different from a condition that a transfer of assets to a not-for-profit entity relates to a particular time period, without any other conditions. This is because:

- (a) standing ready to transfer a specified underlying good or service (eg to make a good available for a customer to use as and when the customer decides) is, of itself, a specifically identifiable service transferred to the customer, even if the underlying good or service is sometimes difficult to identify; however,
- (b) promises to use transferred assets consistently with the entity’s general objectives are not promises to transfer a good or a service.