



<b>Project:</b>	<b>Income of Not-for-Profit Entities</b>	<b>Meeting</b>	AASB December 2015 (M149)
<b>Topic:</b>	<b>Redeliberations – Sufficiently Specific</b>	<b>Agenda Item:</b>	11.1
<b>Contact(s):</b>	Mark Shying <a href="mailto:mshying@asb.gov.au">mshying@asb.gov.au</a> (03) 9617 7645 Joanna Spencer <a href="mailto:jspencer@asb.gov.au">jspencer@asb.gov.au</a> (03) 9717 7620	<b>Project Priority:</b>	High
		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Redeliberations

## Introduction and objective of this paper

- 1 The objective of this paper is to discuss the principle articulated in Exposure Draft ED 260 *Income of Not-for-Profit Entities* that, to qualify as a performance obligation, a promise to transfer goods or services to a customer must be ‘sufficiently specific’ to be able to determine when the performance obligation is satisfied.
- 2 This paper is structured as follows:
  - (a) Summary of staff recommendations (paragraph 3)
  - (b) Background (paragraphs 4-14)
  - (c) Feedback received on ‘sufficiently specific’ (paragraphs 15-18)
  - (d) Staff analysis, recommendations and questions for the Board (paragraphs 19-33)
  - (e) Appendix A: ED 260 proposals relevant to sufficiently specific<sup>1</sup>
  - (f) Appendix B: Performance obligations – other jurisdictions
  - (g) Appendix C: AASB Roundtables on AASB ED 260 Matrix

<sup>1</sup> 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](http://www.aasb.gov.au/admin/file/content105/c9/ACCED260_04-15.pdf)

## **Link to project summary**

[http://www.aasb.gov.au/admin/file/content102/c3/Income\\_of\\_Not\\_for\\_Profit\\_Entities\\_Project\\_Summary.pdf](http://www.aasb.gov.au/admin/file/content102/c3/Income_of_Not_for_Profit_Entities_Project_Summary.pdf)

## **Summary of staff recommendations**

- 3 The staff recommend the following:
- (a) that the ‘sufficiently specific’ principle is retained in the final literature that is the outcome of ED 260;
  - (b) amending the Implementation Guidance for Not-for-Profit Entities that is an integral part of AASB 15 (Implementation Guidance) and the Basis for Conclusions to the final literature that is the outcome of ED 260:
    - (i) to clarify when an implied promise could meet the ‘sufficiently specific’ criterion;
    - (ii) to make clear that a statement of intent may be sufficient to consider the promise to be ‘sufficiently specific’; and
    - (iii) to clarify that the absence of a more specific condition regarding the goods or services to be provided by a not-for-profit entity that has a single purpose charter would not prevent identification of a performance obligation; and
  - (c) that the Implementation Guidance be amended to include a reference to outcomes and outputs and the finalised illustrative examples include:
    - (i) detailed Illustrative Examples of an acquittal process and a budget example that provide evidence of a promise to transfer goods or services that is ‘sufficiently specific’;
    - (ii) for some current examples, a greater examination of the existence of performance obligations;
    - (iii) a modified version of the matrix that is reproduced in Appendix C; and
    - (iv) more detailed examples that include the interaction of outcomes and outputs and an example that illustrates the assessment of the specificity of a research service.

## **Background**

- 4 Appendix A to this Agenda Paper outlines the proposals in ED 260 relevant to this paper and Appendix B contains published overseas literature on performance obligations.

### ***‘Sufficiently specific’ principle for identifying a performance obligation***

- 5 ED 260 establishes a principle for identifying a performance obligation that states to qualify as a performance obligation, a not-for-profit entity’s promise to transfer a good or service in an enforceable arrangement with a customer must be ‘sufficiently specific’. Therefore, a promise to transfer a good or service in an enforceable arrangement that is not ‘sufficiently specific’ is not a performance obligation in a contract with a customer and outside the scope of AASB 15 *Revenue from Contracts with Customers*. Instead, the entity would account for that promise as a transfer in accordance with the requirements in [draft] AASB 10XX.
- 6 ED 260 states it can be difficult to distinguish goods or services because “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...[or] that the funds are to be expended within a specified time period.” [paragraph BC30]
- 7 ED 260 states the circumstances described in paragraph 6 above “...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.” [paragraph BC31]
- 8 ED 260 [paragraph IG13 of Appendix E] acknowledges that judgement is required to apply the ‘sufficiently specific’ principle and provides some conditions to consider in applying that judgement, being:
  - (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.
- 9 The Board considered whether ED 260 should identify particular conditions such as those listed in paragraph 16 above as essential for treating a promise to transfer goods or services as ‘sufficiently specific’. The Board decided [paragraph BC33] to not specify essential conditions as:
  - (a) no particular condition regarding a promise to provide a good or service would ensure the principle established in ED 260 and described in paragraph 5 above is satisfied; 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.
- 10 Paragraph IG13(d) of Appendix E of ED 260 identifies the period over which goods or services must be transferred as one condition to consider in applying the judgement that is required to apply the ‘sufficiently specific’ principle. However, paragraph IG15 also states “...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 of the goods or services to be transferred by that entity over that period must also be specified.”

- 11 Paragraph IG15 reflects the Board’s view that a transferor’s stipulation to use the transferred funds over a particular time period, without any other conditions, does not meet the ‘sufficiently specific’ criterion. “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).” [paragraph BC35]<sup>2</sup>

### ***IFRS 15 – identifying a performance obligation***

- 12 The ED 260 ‘sufficiently specific’ principle described in paragraph 5 above for identifying a performance obligation of a not-for-profit entity is not found in IFRS 15 *Revenue from Contracts with Customers*.
- 13 IFRS 15 requires that on identifying a contract with a customer, the entity should evaluate the explicit and implicit terms of the contract to identify which promised goods or services or a bundle of promised goods or services (including promises implied by an entity’s customary business practices, published policies or specific statements) should be accounted for as separate performance obligations.
- 14 The key requirement in IFRS 15 for identifying a separate performance obligation is whether a good or service, or bundle is distinct. A good or service is distinct if the customer can benefit from the good or service on its own or together with other readily available resources and the good or service is separately identifiable other promises in the contract.<sup>3</sup> Each distinct good or service will be a separate performance obligation.

### **Feedback received on ‘sufficiently specific’**

- 15 The majority of constituents agreed with the proposal that to qualify as a performance obligation, a not-for-profit entity’s promise to transfer a good or service to a counterparty in a contract must be ‘sufficiently specific’ to be able to determine when the obligation is satisfied.
- 16 Some constituents noted that the substance of a grant is a funding arrangement and that is not the same as an ad-hoc donation, where the entity would have complete discretion on the use of those funds. Despite this difference, some constituents were

---

<sup>2</sup> The Framework defines a liability as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. The IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* defines a liability as a present obligation of the entity to transfer an economic resource as a result of past events. The main changes from the existing definition are the deletion of the reference to an expected outflow of resources embodying economic benefits and its replacement with the new defined term ‘economic resources’.

<sup>3</sup> An entity may provide a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Provided specified criteria are met, such a series is a single performance obligation.

concerned that a grant not meeting the ‘sufficiently specific’ criterion is treated in the same way as an ad-hoc donation.

17 Some constituents expressed the need for clarification and some stated that additional guidance is required. Some constituents did not find some of the examples in ED 260 as helpful as they could be because:

- (a) they do not address more complicated scenarios; and
- (b) the analysis in the examples is not sufficiently linked to the proposed guidance to explain how that guidance should be applied.

18 Constituents made the following points:

- (a) that clarification is needed as to whether a promise that is implied by the intentions of both parties is a promise which meets the ‘sufficiently specific’ criterion:
  - (i) some constituents noted that the relationship of a statement of intent [ED 260 paragraph IG7(b) of Appendix E] to a promise that is implied by, for example, an entity’s published policies or specific statements [IFRS 15 paragraph 24] is not clear; and
  - (ii) some constituents disagreed with the example that a transfer to be used by a not-for-profit entity for any purpose in its operations would not meet the ‘sufficiently specific’ criterion [ED 260 paragraph IG15]. Some constituents considered that this outcome would not be true of a not-for-profit entity with a single purpose charter; and
- (b) that some of the examples used to illustrate the principles in ED 260 were not clear and that there was a need to supplement the existing examples with examples that reflected some of the complex agreements that operate in the not-for-profit sector.

## **Staff analysis**

### ***General observation***

#### *Staff analysis*

19 ED 260 provides examples of conditions to consider in applying the judgement that is required in assessing the ‘sufficiently specific’ principle. However, no particular condition is identified as essential for treating a promise to transfer goods or services as ‘sufficiently specific’. The staff are of the view that in general, the meaning of ‘sufficiently specific’ proposed in ED 260 and the accompanying material is appropriate and should be retained with some improvements.

#### *Staff recommendation*

20 Given the feedback received on ED 260, staff recommend that the ‘sufficiently specific’ principle is retained in the final literature that is the outcome of ED 260.

## Question 1 for Board members

Do Board members agree with the staff recommendation?

### *Implied promise*

#### *Staff analysis*

- 21 IFRS 15 states a contract may include implied promises such as published policies or specific statements “...if, at the time of entering into the contract, those promises created a valid expectation of the customer that the entity will transfer a good or service to the customer.” [paragraph 24].
- 22 Staff consider that currently, the fact that a condition may be explicit or implicit is not clear in ED 260 for a not-for-profit entity. In particular, it is not clear when an implied promise could meet the ‘sufficiently specific’ criterion. For example, when a not-for-profit entity with a single purpose charter to provide counselling services receives assets without a condition that they be used to provide counselling services the promise is ‘sufficiently specific’ as the conditions attaching to the transfer are implicit.
- 23 An improvement to the Implementation Guidance would be to clarify when a performance obligation may be the consequence of an implied promise. Also, it would be helpful to clarify the example(s) to make clear that the absence of a more specific condition regarding the goods or services to be provided by a not-for-profit entity that has a single purpose charter, for example where its sole purpose is to provide counselling services, would not prevent identification of a performance obligation.
- 24 Staff consider the discussion in ED 260 about the status of a statement of intent might be adding to the confusion of constituents about the status of implied promises. ED 260 [paragraph IG7(b) of Appendix E] states “A statement of intent [to spend money or consume assets in a particular way], of itself, is insufficient to cause an agreement to be enforceable”.

#### *Staff recommendation*

- 25 Given the feedback received on ED 260, staff recommend:
- (a) clarifying in the Implementation Guidance when an implied promise would meet the ‘sufficiently specific’ criterion; to make clear that a statement of intent may be sufficient to consider the promise to be ‘sufficiently specific’ and that the absence of a more specific condition regarding the goods or services to be provided by a not-for-profit entity that has a single purpose charter would not prevent identification of a performance obligation :
- (i) by amending paragraphs IG13 and IG14 by adding the punctuation and words shown with underline to read:
- 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 in the arrangement, whether explicit or implicit, regarding the promised goods or services, including conditions regarding the following aspects:...

IG14 Whether a promise is sufficiently specific to qualify as a performance obligation is assessed separately for each promise and will depend on the facts and circumstances. No specific number or combination of the ~~aspects~~ conditions mentioned in paragraph IG13 needs to be specified in an agreement ~~if for the promise is to be~~ sufficiently specific. In addition there may be other conditions which may indicate that the promise is sufficiently specific and need to be taken into account in applying the judgement above.

- (ii) by inserting a new paragraph IG15 which is shown in underline to read:

IG15 The conditions specified regarding the promised goods or services may be explicit in the agreement or implicit. Paragraph 24 states that 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. A not-for-profit entity may make a statement of intent to spend a transfer in a particular way. While, as stated in paragraph IG7(b), a statement of intent would not of itself, be sufficient to cause the agreement to be enforceable, the statement of intent may be sufficient to meet the conditions in paragraph IG 13 to consider the promises to be 'sufficiently specific'.

- (iii) by renumbering the former paragraph IG15 as IG16 and amending the new paragraph IG16 by deleting the punctuation and words shown with strikethrough and adding the punctuation and words shown with underline to read:

~~IG15-IG16~~ IG16 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 may 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 may provide a number of services under its charter such as counselling and housing to disadvantaged youth. Where it receives a transfer to be used for ~~any an~~ unspecified purpose over a particular time period, such a promise ~~in its operations~~ would not meet the 'sufficiently specific' criterion. On the other hand, where a not-for-profit entity has a single purpose charter of providing counselling services and receives a transfer to be used over a particular time period, such a promise would meet the 'sufficiently

specific’ criterion as the nature of the services to be provided is implied under the arrangement.

- (iv) by deleting the former paragraph IG16 shown with strikethrough after incorporating the first sentence in paragraph IG18 below, and the second sentence in paragraph IG14 above:

~~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.~~

- (v) by amending paragraph IG17 by deleting the punctuation and words shown with strikethrough and adding the punctuation and words shown with underline to read:

~~IG17 An acquittal process in relation to transferred assets (in which the entity is required to provide a statement to the transferor on how it used the transferred assets) might may be indicative provide evidence of a promise to transfer goods or services that is both part of an ‘enforceable’ arrangement and ‘sufficiently specific’ depending on the level of the acquittal process and other facts and circumstances. 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.~~

- (vi) by inserting a new paragraph IG18 which is shown in underline to read:

IG18 In accordance with paragraph IG4, a promise to transfer goods or services can qualify as a performance obligation without being enforceable, provided it is part of an enforceable agreement.

- (vii) by renumbering the former paragraph IG18 as IG19 and amending the new paragraph IG19 by deleting the words shown with strikethrough to read:

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

~~IG18~~ IG19 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.; and

- (b) amending the Basis for Conclusions paragraphs BC30, BC31 and BC35 by deleting the punctuation and words shown with strikethrough and adding the punctuation and words shown with underline to read:

#### Performance Obligations

##### Sufficiently specific specification

BC30 Some transfers of assets to not-for-profit entities are provided with no, or minimal, ~~specifications-conditions~~ 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-condition 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-conditions~~ 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.

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-condition 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.

## Question 2 for Board members

Do Board members agree with the staff recommendation?

### *Illustrative examples*

#### *Staff analysis*

- 26 The staff are of the view that some of the Illustrative Examples could be improved and that the existing examples could be supplemented with Illustrative Examples that reflected the decisions of the Board following redeliberation and which could include examples that are informed by some of the common agreements that operate in the not-for-profit sector (as provided by constituents in their responses).
- 27 For example, if the Board agrees with the staff recommendation made in paragraph 25(a)(v) above that paragraph IG17 be amended, then the Board might determine that a detailed Illustrative Example of the acquittal process and a budget example that provide evidence of a promise to transfer goods or services that is ‘sufficiently specific’ would be useful.
- 28 Some of the current examples mix a number of concepts. For example, the outcomes of the Examples 3B and 3C scenarios appear to be dependent upon whether the services are specified and if not whether the not-for-profit entity is entitled to retain any interest earned on the unexpended grant money.
- 29 The objective of this Staff Paper is to redeliberate the ‘sufficiently specific’ criterion. Therefore, evaluating the usefulness of an example that illustrates a combination of concepts that include the ‘sufficiently specific’ criterion is not within the objective of the Staff Paper. However, Illustrative Examples 3B and 3C might benefit from building into the examples a greater examination of the existence of performance obligations.
- 30 The paper produced to promote discussion at the AASB Roundtables on ED 260 included a matrix that identified for different scenarios the different determinants of whether an inflow in the form of a grant or similar transaction gives rise to a liability or immediate income and noted that the existence of a performance obligation is, in most cases, the key determinant. The matrix is reproduced as Appendix C and some constituents found it helpful.
- 31 Extending the illustrative examples by making them more detailed may be a useful way of illustrating the level of detail that might be required for the conditions ‘nature or type of the goods or services’ and ‘cost or value of the goods or services’ to be considered ‘sufficiently specific’. Assessment of the specificity of a research service might also usefully benefit from the addition of an example.
- 32 Some agreements identify outcomes and outputs. Illustrative Examples 5A and 5B address outputs and outcomes, however, the examples do not clearly illustrate their interaction. There is no reference to outcomes and outputs in the Implementation Guidance. The examples could address the interaction of outcomes and outputs and the Implementation Guidance could be amended to refer to outcomes and outputs.

*Staff recommendation*

33 Given the feedback received on the ED 260, staff recommend that:

- (a) the finalised illustrative examples include:
  - (i) subject to the Board's tentative decision on the staff recommendation made in paragraph 25(a)(v) above that paragraph IG17 be amended, a detailed Illustrative Example of the acquittal process along with a budget example that provide evidence of a promise to transfer goods or services that is 'sufficiently specific';
  - (ii) for Examples 3B and 3C, a greater examination of the existence of performance obligations;
  - (iii) a modified version of the matrix that is reproduced in Appendix C; and
  - (iv) more detailed examples that include the interaction of outcomes and outputs and an example that illustrates the assessment of the specificity of a research service; and
- (b) amend paragraph IG13(a) by adding the punctuation and words shown with underline to read:

IG13...(a) the nature or type of the goods or services, specified as outcomes or outputs;

**Question 3 for Board members**

Do Board members agree with the staff recommendation?

## Appendix A: ED 260 proposals relevant to sufficiently specific

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.

### **[emphasis added]**

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.

### *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.

## **Appendix B: Performance obligations – other jurisdictions**

### **International**

#### IFRS for SMEs

Section 24 *Government Grants* of IFRS for SMEs utilises a performance condition<sup>4</sup> approach to revenue recognition.

The recognition and measurement requirements at paragraph 24.4 and 24.5 are as follows:

24.4 An entity shall recognise government grants as follows:

---

<sup>4</sup> Staff consider that a performance condition approach is akin to a performance obligation approach.

- (a) A grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable.
- (b) A grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met.
- (c) Grants received before the revenue recognition criteria are satisfied are recognised as a liability.

24.5 An entity shall measure grants at the fair value of the asset received or receivable

IFRS for SMEs does not define the phrase ‘performance conditions’ however, the *IFRS Foundation: Training Material for the IFRS for SMEs –Module 24 – Government Grants* contains a note that states:

A performance condition is a requirement that entitles a government to the return of the granted resource if a specified event either occurs or does not occur. Any such requirement should have commercial substance to be regarded as a performance condition.

This training module contains several scenarios that illustrate how the performance condition approach should be applied.

## **United Kingdom**

### FRS 102

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* is based on *IFRS for SMEs* and as such uses the concept of performance-related conditions<sup>5</sup> when accounting for Government grants (Section 24), Funding Commitments (Section 34 paragraphs 34.57 to 34.63) and Incoming resources from Non-Exchange Transactions (Section 34 paragraphs 34.64 to 34.74). The requirements for funding commitments and incoming resources from non-exchange transaction are additional to those in IFRS for SMEs.

Whilst FRS 102 contains guidance on accounting for *Funding Commitments* and *Incoming Resources from Non-Exchange Transactions* it does not contain any guidance on how to apply the performance condition approach in respect for government grants. However as noted above, guidance is available from the IFRS Foundation.

FRS 102 defines a performance-related condition as:

A condition that requires the performance of a particular level of service or units of output to be delivered, with payment of, or entitlement to, the resources conditional on that performance.

FRS 102 also uses the concept of a restriction which is defined as:

---

<sup>5</sup> FRS 102 uses performance-related condition in place of performance condition that is used in IFRS for SMEs because the term performance condition is also used in IFRS for SMEs in Section 26 *Share-based Payment* and it was thought the two terms were different concepts.



A requirement that limits or directs the purposes for which a resource may be used that does not meet the definition of a performance-related condition.

*FRS 102 requirements and guidance*

**Funding commitments** – although this section is from the grantors perspective it may provide useful particularly if mirror accounting is an aim. The recognition requirements for funding commitments are as follows:

- 34.59 An entity shall recognise a liability and, usually, a corresponding expense, when it has made a commitment that it will provide resources to another party, if, and only if:
- (a) the definition and recognition criteria for a liability have been satisfied;
  - (b) the obligation (which may be a constructive obligation) is such that the entity cannot realistically withdraw from it; and
  - (c) the entitlement of the other party to the resources does not depend on the satisfaction of performance-related conditions.
- 34.60 Commitments that are performance-related will be recognised when those performance-related conditions are met.

Guidance on funding commitments that accompanies and is an integral part of FRS 102 is as follows:

- 34A.1 Entities often make commitments to provide cash or other resources to other entities. In such a case, it is necessary to determine whether the commitment should be recognised as a liability. The definition of a liability requires that there be a present obligation, and not merely an expectation of a future outflow.
- 34A.2 A general statement that the entity intends to provide resources to certain classes of potential beneficiaries in accordance with its objectives does not in itself give rise to a liability, as the entity may amend or withdraw its policy, and potential beneficiaries do not have the ability to insist on their fulfilment. Similarly, a promise to provide cash conditional on the receipt of future income in itself may not give rise to a liability where the entity cannot be required to fulfil it if the future income is not received and it is probable that the economic benefits will not be transferred.
- 34A.3 A liability is recognised only for a commitment that gives the recipient a valid expectation that payment will be made and from which the grantor cannot realistically withdraw. One of the implications of this is that a liability only exists where the commitment has been communicated to the recipient.
- 34A.4 Commitments are not recognised if they are subject to performance-related conditions. In such a case, the entity is required to fulfil its commitment only when the performance-related conditions are met and no liability exists until that time.

34A.5 A commitment may contain conditions that are not performance-related conditions. For example, a requirement to provide an annual financial report to the grantor may serve mainly as an administrative tool because failure to comply would not release the grantor from its commitment. This may be distinguished from a requirement to submit a detailed report for review and consideration by the grantor of how funds will be utilised in order to secure payment. A mere restriction on the specific purpose for which funds are to be used does not in itself constitute a performance-related condition.

#### *Incoming resources from non-exchange transactions*

**Incoming resources from non-exchange transactions** – this section address how a public benefit entity (PBE) accounts for all resources that are received on a non-exchange basis.

The recognition requirements are as follows:

PBE34.67 An entity shall recognise receipts of resources from non-exchange transactions as follows:

- (a) Transactions that do not impose specified future performance-related conditions on the recipient are recognised in income when the resources are received or receivable.
- (b) Transactions that do impose specified future performance-related conditions on the recipient are recognised in income only when the performance-related conditions are met.
- (c) Where resources are received before the revenue recognition criteria are satisfied, a liability is recognised.

PBE34.68 The existence of a restriction does not prohibit a resource from being recognised in income when receivable.

PBE34.71 An entity shall recognise a liability for any resource that has previously been received and recognised in income when, as a result of a subsequent failure to meet restrictions or performance-related conditions attached to it, repayment becomes probable.

There is limited guidance on incoming resources from non-exchange transactions regarding performance conditions, however the two paragraphs within the integral guidance that accompanies FRS 102 is as follows:

#### **Performance-related conditions**

PBE34B.13 Some resources are given with performance-related conditions attached which require the recipient to use the resources to provide a specified level of service in order to be entitled to retain the resources. An entity will not recognise income from those resources until these performance-related conditions have been met.

PBE34B.14 However, some requirements are stated so broadly that they do not actually impose a performance-related condition on the recipient. In

these cases the recipient will recognise income on receipt of the transfer of resources.

### Statements of Recommended Practice

Within the UK certain industry bodies publish Statements of Recommended Practice (SORPs) that are intended to help entities in producing their financial statements. This included providing instruction on how to apply the applicable accounting standards as well as any other requirements that may be imposed on them by a regulator. Two SORPs that are of particular relevance to how performance-related conditions should be applied are the Charities SORP and the Further and Higher Education (HEFE) SORP.

#### *Charities SORP*

Guidance relevant to applying the concept of performance-related conditions is as follows:

### ***A2: Income from charitable activities***

- 4.33. Income from charitable activities includes income earned both from the supply of goods or services under contractual arrangements and from performance-related grants which have conditions that specify the provision of particular goods or services to be provided by the charity. To fall within this analysis heading, the activities specified by the contractual terms or grant conditions must be undertaken for the charitable purposes of the charity.

### ***5. Recognition of income, including legacies, grants and contract income***

- 5.6. A donation or grant that can be used for any purpose of the charity is unrestricted income. However, a donation or grant may be restricted to a specific purpose of a charity. A restriction may result from a specific appeal by the charity, or from the decision of the grant-maker or donor to support a specific purpose of the charity rather than making funds available for the charity's general use. Simply because a grant is restricted to a particular purpose of the recipient charity does not mean it should be recognised as a performance-related grant. Restricted grants that are not subject to performance-related conditions, are included within the SoFA heading 'Income from donations and legacies'.
- 5.7. Transactions must be accounted for and presented in accordance with their substance and not simply their legal form. Charities must therefore consider the substance of any conditions attaching to donations or grants and to the substance of any contractual terms when determining their entitlement to income. Similarly, the substance of any restriction placed on the use of income must be considered when determining whether or not income is presented as restricted funds in a charity's accounts. In particular, a charity should consider:
- Whether entitlement to income is subject to fulfilling performance-related conditions. Performance-related conditions

distinguish a contract or performance-related grant from an unconditional gift or grant.

- The terms of a donation or grant that impose a restriction on use which is narrower than the general purposes of the charity. Terms placed on gifts that limit a charity's discretion over how income must be used are presented as restricted income in the accounts.
- The terms of a contract may limit payments to amounts expended by the charity on purposes specified in the contract and restrict the charity's use of any surplus. Income that is restricted by contractual terms may be presented as restricted in the accounts if the restrictions are in substance the same as would apply to a restricted donation or grant.
- The terms of a gift that require it to be held as endowment that must be invested and not spent. Material endowment funds must be presented as a separate class of restricted funds.

#### **Performance-related conditions**

- 5.16. Grant funding agreements may contain conditions that specify the services to be performed by a charity in receipt of a grant. For example, the grant may be in the form of a service level agreement where the conditions for payment are linked to the achievement of a particular level of service or the units of output delivered. The performance-related conditions contained in a funding agreement might, for example, specify the number of meals provided or the opening hours of a facility used by beneficiaries. Income must only be recognised to the extent that the charity has provided the specified goods or services as entitlement to the grant only occurs when the performance-related conditions are met.
- 5.17. Although performance-related conditions can apply to any form of gift, in practice it is unusual to see performance-related conditions apply to donations.
- 5.18. A restriction on the use of a grant or donation to a particular purpose or activity of a charity does not create a performance-related condition. A restriction creates a requirement that limits or directs the purpose for which a resource may be used but it does not require a specific level of performance or output from the recipient charity.
- 5.19. It is important at the outset of any arrangement that the charity identifies whether the funding agreement is a performance-related grant or a contract. This is important because the consequence of non-compliance with performance-related conditions and the liability for non-performance of a contract differ. The law of contract provides for the buyer to seek costs, damages and recompense for any failure or breach of contract by the seller, whereas a breach of grant conditions may lead to a partial or full repayment of the grant when repayment terms apply to the grant.

#### **Other terms and conditions that limit the recognition of income**

- 5.22. Time-related conditions may be implied. For example when a multi-period grant is approved and is to be paid on the basis of agreed annual budgets, the charity may not be entitled to spend part or all of that income in advance of its budgeted year(s) without the further prior approval of the grant-maker.

### **Deferring income where conditions that limit recognition are not met**

- 5.23. Where terms and conditions have not been met or uncertainty exists as to whether the recipient charity can meet the terms or conditions otherwise within its control, the income should not be recognised but deferred as a liability until it is probable that the terms or conditions imposed can be met.
- 5.24. A grant that is subject to performance-related conditions received in advance of delivering the goods and services required by that condition, or is subject to unmet conditions wholly outside the control of the recipient charity, is accounted for as a liability and shown on the balance sheet as deferred income. Deferred income is released to income in the reporting period in which the performance-related or other conditions that limit recognition are met.
- 5.25. When income from a grant or donation has not been recognised due to the conditions applying to the gift not being wholly within the control of the recipient charity, it should be disclosed as a contingent asset if receipt of the grant or donation is probable once those conditions are met.

## **7. Recognition of expenditure**

### **Conditions that limit the recognition of a funding commitment**

- 7.19. Where a grant commitment is payable over a period of more than one year, a liability must be recognised for the full amount of the constructive obligation unless conditions apply to payments falling due after the reporting date. Where payments for later years are subject to performance-related conditions, the donor charity may be able to legitimately withdraw from its commitment if a particular condition attaching to the grant is not met.

### **Accounting for liabilities arising from performance-related grants**

- 7.25. The key characteristic of a performance-related grant is that the amount of the grant payable to the recipient is determined by the extent of their performance in meeting the conditions set out in the grant agreement.
- 7.26. The payment of a performance-related grant is conditional on the grant recipient delivering a specified level of service or units of output. For example, the payment might be conditional on the number of meals provided or the usage or opening hours of a facility. In such cases the grant-maker will often have negotiated the nature of services to be provided. The liability and expenditure arising from performance-related

grants must be recognised to the extent that the recipient of the grant has provided the specified service or goods.

- 7.27. A grant that is restricted to a particular purpose does not create a performance-related condition, as the payment of the grant is not conditional on the achievement of a specified level of service or outputs by the recipient. Similarly, a grant that funds a project over a number of years is not recognised as a performance-related grant simply because the funding obligation is to be met over an extended period of time.

The Charities SORP provides the following definition:

**Performance-related grant** is the term used to describe a grant that has the characteristics similar to those of a contract, in that:

- the terms of the grant require the performance of a specified service that furthers the objectives of the grant maker; and
- entitlement to the grant receivable is conditional on a specified output being provided by the grant recipient.

*Further and Higher Education (HEFE) SORP*

Guidance relevant to applying the concept of performance-related conditions is as follows:

## **17: Government Grants**

### **Performance Model**

#### 17.14 Performance-related conditions

- (a) FRS 102 defines a performance-related condition as “*A condition that requires the performance of a particular level of service or units of output to be delivered, with payment of, or entitlement to, the resources conditional on that performance.*” Where the grant relates to more than one accounting period it will be necessary to analyse the ‘output’ conditions to ascertain whether in substance they are a series of conditions covering sequential periods rather than a single test only performed at the end. This is important because in the latter situation no grant income could be recognised until the end of the grant period. Government grants with performance-related conditions include education contracts and annual grants from funding bodies which stipulate the particular academic year and / or students to which the grant relates.
- (b) A grant with unfulfilled performance-related conditions is held as deferred income until such time that the conditions are met, at which point the income is recorded within the Statement of Comprehensive Income.
- (c) Some conditions (including procedural type conditions) are not performance-related and would be ignored for the purposes of determining when recognition occurs. An example of this could be submitting a grant claim form.
- (d) A number of grants, including many EU grants, have output requirements to be delivered many years after the grants have been utilised. Where an institution can demonstrate that these outcome measures are likely to be achieved at the

date of grant award, for example through initial project due diligence, these measures are not deemed performance-related conditions. However, a failure to meet such output requirements at a later date may indicate that the institution is no longer entitled to the grant and the situation must be considered on an annual basis to assess whether a contingent liability should be disclosed or a provision recorded in the financial statements in line with section 15 of this SORP.

#### 17.15 Restrictions

- (a) A restriction is defined in FRS 102 as “*a requirement that limits or directs the purposes for which a resource may be used that does not meet the definition of a performance-related condition.*” An example of a restriction could be a grant for funding a defined area of research which does not have specified units of delivery and therefore does not include performance-related conditions.

#### 17.16 Examples

- (a) Grants may include specific requirements that meet the definition of performance-related conditions. Careful analysis of the documentation may be needed to identify the relevant performance-related conditions and allocate portions of the grant against multiple performance-related conditions.

For example, a grant to fund a specific academic post over three years is likely to include performance-related conditions where the grantor specifies the “*level of service*” or “*units of output*” to be delivered over the three year period. Examples of a specified level of service include teaching days or research days.

- (b) In some cases it will be difficult to identify a condition related to unit of output. For example:
- A grant to fund the chemistry department (payable by three annual instalments) is unlikely to be regarded as including performance-related conditions. The institution is free to spend the money on labour, equipment or other overheads and therefore only contains a restriction as to how the funds are spent. The arrangement to pay in instalments over three years is not of itself an indication of a performance-related condition.
  - Capital grants may include performance-related conditions for the construction phase. However, the terms of many capital grants are sufficiently broad that they only have restrictions during the period of construction. A capital grant where the use of the building is specified over a 20 year period of time may include performance-related conditions relating to the construction of the building. The specified use of the building for a period of time after construction is a restriction not a performance-related condition.

## 18: Non-exchange Transactions

18. 4 Non-exchange transactions may be received with performance-related conditions, with restrictions, with neither or with both. This SORP considers that donations and endowments form a subset of non-exchange transactions and these may or may not have performance-related conditions and/or restrictions attached to them. The most common classes of non-exchange transactions include:
- (a) non-exchange transactions with performance-related conditions;
  - (b) donations with no restrictions;
  - (c) donations with restrictions: and
  - (d) endowments - endowments do not include performance-related conditions but they may have either permanent or temporary restrictions.
18. 10 A donation to carry out research in a particular research field is considered to be a donation with a restriction. However, a performance-related condition may exist if the donor specified the specific time period over which the donation should be spent in a way which represents a performance-related condition over which the institution is entitled to the income. Such a specification should include the “*level of service*” or “*unit of output*” to be delivered over the time period.



## Appendix C: AASB Roundtables on AASB ED 260 Matrix

Assume that, for each scenario described in the table below, a not-for-profit entity obtained control of a transfer of \$1 million in cash on 31 May 20X0 and its current annual reporting period ends on 30 June 20X0.

Scenarios (additional facts)	Enforceable promise?	Sufficiently specific promise?	Performance obligation?	Other liability?
(1) There are no conditions on when or how that money is to be spent.	No	No	No	No
(2) The entity is required by legislation to issue a budget indicating which services each transferred resource received will be spent on, and to report actual outcomes against budget. However, the entity cannot be required to spend the transferred resources as budgeted.	No	Yes	No	No
(3) The entity raises a specific purpose levy (e.g. for extra garbage collections) that is refundable if the service is not provided.	Yes	Yes	Yes	No
(4) The transferor indicates that the money is provided for expenditure on any purpose during the next financial year, but there are no consequences for the entity if it spends any of that money outside that period.	No	No	No	No
(5) The transferor is an ongoing funder of the entity, and indicates that the money is provided for expenditure on any purpose during the next financial year. The transferor also indicates that, if the entity spends any of that money outside that period, it will not provide future funding. However, the transferor has no power to require a refund if the condition is breached, or to enforce the condition in another way.	No (threatened withdrawal of future funding gives rise to economic compulsion only)	No	No	No
(6) The transferor indicates that the money is provided for expenditure on any purpose during the next financial year, and any of that money spent outside that period becomes immediately repayable.	Yes	No	No	No (the entity does not have a financial liability, because it has the discretion to avoid a breach that triggers repayment)

<b>Scenarios (additional facts)</b>	<b>Enforceable promise?</b>	<b>Sufficiently specific promise?</b>	<b>Performance obligation?</b>	<b>Other liability?</b>
(7) As per Scenario 6, except that the entity spent \$300,000 before 30 June 20X0.	Yes	No	No	Yes (the entity has a financial liability to repay \$300,000)
(8) As per Scenario 6, except that the money is provided for a specific service to be transferred to a nominated class of third party beneficiaries during the next financial year, and is refundable if that service is not transferred.	Yes	Yes	Yes	No
(9) As per Scenario 8, except that: <ul style="list-style-type: none"> <li>the money is not refundable if that service is not transferred; but</li> <li>the government (transferor) is able to sue for non-performance even if it generally chooses not to.</li> </ul>	Yes	Yes	Yes	No
(10) The transfer is the proceeds of borrowing in an interest-free loan provided without any conditions on how the money is to be used. The loan liability is initially measured under AASB 9 at \$750,000.	Yes (in relation to repayment of loan principal)	No	No	Yes (financial liability initially measured at \$750,000)
(11) The transfer is an instalment of tax paid in advance of the taxable event giving rise to the entity's right to retain the transferred money.	No	No	No	Yes (whole amount is a refund liability that is not a financial liability, because taxes are not contractual)