

AASB Standard

**AASB 2016-X**  
[Month] 2016

# **Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities**

**[AASB 9 & AASB 15]**

**PRE-BALLOT DRAFT  
FOR BOARD DISCUSSION 14 NOVEMBER  
FINAL COMMENTS TO STAFF BY FRIDAY 18<sup>TH</sup> NOVEMBER**



**Australian Government**

**Australian Accounting  
Standards Board**

## **Obtaining a copy of this Accounting Standard**

This Standard is available on the AASB website: [www.aasb.gov.au](http://www.aasb.gov.au).

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PREFACE

### ACCOUNTING STANDARD

#### AASB 2016-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES

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Australian Accounting Standard AASB 2016-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* is set out in paragraphs 1 – 10. All the paragraphs have equal authority.

## Preface

### Standards amended by AASB 2016-X

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This Standard makes amendments to AASB 9 *Financial Instruments* (December 2014) and AASB 15 *Revenue from Contracts with Customers* (December 2014).

The amendments arise from the issuance of AASB 10XX *Income of Not-for-Profit Entities*.

### Main features of this Standard

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#### Main requirements

This Standard inserts authoritative Australian implementation guidance for not-for-profit entities to AASB 9 and AASB 15. This guidance assists not-for-profit entities in applying those Standards to particular transactions and other events.

The amendments to AASB 9 provide guidance on the initial measurement and recognition of non-contractual receivables arising from statutory requirements. Such receivables include taxes, rates and fines.

The amendments to AASB 15 provide guidance in relation to:

- (a) identifying a contract with a customer;
- (b) identifying performance obligations; and
- (c) allocating the transaction price to performance obligations.

#### Application date

This Standard applies to annual periods beginning on or after 1 January 2019. Earlier application is permitted provided AASB 10XX is also applied to the same period.

## Accounting Standard AASB 2016-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2016-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Kris Peach  
Chair – AASB

## Accounting Standard AASB 2016-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*

### Objective

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- 1 This Standard amends:
- (a) AASB 9 *Financial Instruments* (December 2014); and
  - (b) AASB 15 *Revenue from Contracts with Customers* (December 2014);
- to add authoritative implementation guidance for application by not-for-profit entities.

### Application

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- 2 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 9 and AASB 15 as set out in AASB 1057 *Application of Australian Accounting Standards* (as amended).
- 3 This Standard applies to annual periods beginning on or after 1 January 2019. This Standard may be applied to annual periods beginning before 1 January 2019, provided that AASB 10XX *Income of Not-for-Profit Entities* is also applied to the same period. When an entity applies this Standard to such an annual period, it shall disclose that fact.

### Amendments to AASB 9

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- 4 Paragraph Aus2.1.1 is added.
- Aus2.1.1 Notwithstanding paragraph 2.1, in respect of not-for-profit entities, the initial recognition and measurement requirements of this Standard apply to non-contractual receivables arising from statutory requirements as if those receivables are financial instruments.
- 5 Appendix C *Australian implementation guidance for not-for-profit entities* is added as set out on page 7.

### Amendments to AASB 15

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- 6 Paragraphs Aus5.1, Aus7.1 and Aus9.1 are added.
- Aus5.1 In addition to paragraph 5, in respect of not-for-profit entities, a transfer to enable an entity to acquire or construct a non-financial asset that is to be controlled by the entity, as described in AASB 10XX *Income of Not-for-Profit Entities*, is not within the scope of this Standard.
- Aus7.1 For not-for-profit entities, a contract may also be partially within the scope of this Standard and partially within the scope of AASB 10XX.
- Aus9.1 Notwithstanding paragraph 9, in respect of not-for-profit entities, if a contract that would otherwise be within the scope of AASB 15 does not meet the criteria in paragraph 9 as it is unenforceable or not sufficiently specific, it is not a contract with a customer within the scope of AASB 15 (see paragraph F5). An entity shall consider the requirements of AASB 10XX in accounting for such contracts.

- 7 In Appendix B, paragraph AusB34.1 is added.
- AusB34.1 Notwithstanding paragraphs B34–B38, not-for-profit entities that are government departments shall apply the requirements of AASB 1050 *Administered Items* to administered items.
- 8 Appendix F *Australian implementation guidance for not-for-profit entities* is added as set out on pages 8–12.
- 9 *Australian illustrative examples for not-for-profit entities* is attached to accompany AASB 15 as set out on pages 13–16.

## **Commencement of the legislative instrument**

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- 10 For legal purposes, this legislative instrument commences on 31 December 2018.

## Appendix C

### Australian implementation guidance for not-for-profit entities

*This appendix is an integral part of AASB 9 and has the same authority as other parts of the Standard. The appendix applies only to not-for-profit entities.*

#### Introduction

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- C1 AASB 9 *Financial Instruments* incorporates International Financial Reporting Standard IFRS 9 *Financial Instruments*, issued by the International Accounting Standards Board. Consequently, the text of AASB 9 is generally expressed from the perspective of for-profit entities in the private sector. The AASB has prepared this appendix to explain the principles in the Standard in relation to non-contractual receivables arising from statutory requirements ('statutory receivables') from the perspective of not-for-profit entities in the private and public sectors. The appendix does not apply to for-profit entities or affect their application of AASB 9.
- C2 This appendix provides guidance to assist not-for-profit entities to determine whether particular transactions or other events, or components thereof, are within the scope of this Standard. If a transaction is outside the scope of AASB 9, the recognition and measurement of the asset and income arising from the transaction may instead be specified by another Standard, such as AASB 10XX *Income of Not-for-Profit Entities*.

#### Non-contractual receivables arising from statutory requirements

- C3 The scope of AASB 9 depends on the definition of a financial instrument, which is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Therefore, AASB 9 specifically addresses financial assets (and financial liabilities) that arise from contracts.
- C4 Financial assets include contractual rights to receive cash or another financial asset from another entity. However, in a not-for-profit context, a receivable may arise from statutory requirements rather than through a contract (for example, rates, taxes and fines). The nature of such a receivable arising from statutory requirements is, in substance, similar to a contractual receivable, as the statutory requirements also provide an entity with a right to receive cash or another financial asset from another entity.
- C5 Accordingly, an entity recognises and measures a statutory receivable as if it were a financial asset when statutory requirements establish a right for the entity to receive cash or another financial asset. Such a right arises on the occurrence of a past event.
- C6 A past event relating to taxes occurs as specified for each tax levied in the relevant taxation law. Examples of taxable events include:
- (a) income tax – the end of the taxation period in respect of which taxable income of a taxpayer is determined;
  - (b) goods and services tax – the purchase or sale of taxable goods and services during the taxation period;
  - (c) customs duty – the movement of dutiable goods or services across the customs boundary; and
  - (d) property tax – the passing of the date on which the tax is levied, or, if the tax is levied on a periodic basis, the period for which the tax is levied.
- C7 In some instances, assets arising from taxable events cannot be measured reliably until after the taxing entity's financial statements are authorised for issue. This may occur, for example, if a tax base is volatile and reliable estimation is not possible. Consequently, in those cases, the assets would be recognised in a period subsequent to the occurrence of the taxable event, which may be several reporting periods after the taxable event.
- C8 It is unlikely that taxes or fines will qualify as assets of the government agency or department responsible for their collection. This is because the government agency or department responsible for collecting taxes or fines does not normally control the future economic benefits embodied in tax collections, and the taxes and fines are controlled at a whole of government level.

## Appendix F

### Australian implementation guidance for not-for-profit entities

*This appendix is an integral part of AASB 15 and has the same authority as other parts of the Standard. The appendix applies only to not-for-profit entities.*

#### Introduction

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- F1 AASB 15 *Revenue from Contracts with Customers* incorporates International Financial Reporting Standard IFRS 15 *Revenue from Contracts with Customers*, issued by the International Accounting Standards Board. Consequently, the text of AASB 15 is generally expressed from the perspective of for-profit entities in the private sector. The AASB has prepared this appendix to explain and illustrate the principles in the Standard from the perspective of not-for-profit entities in the private and public sectors, particularly to address circumstances where a for-profit perspective does not readily translate to a not-for-profit perspective. The appendix does not apply to for-profit entities or affect their application of AASB 15.
- F2 AASB 15 provides guidance on the following five elements of a contract with a customer:
- (a) identifying a contract (paragraphs 9–21);
  - (b) identifying performance obligations (paragraphs 22–30);
  - (c) determining the transaction price (paragraphs 46–72);
  - (d) allocating the transaction price to performance obligations (paragraphs 73–90); and
  - (e) recognising revenue (paragraphs 31–45).
- F3 This appendix should be read in conjunction with the requirements of this Standard.
- F4 This appendix provides guidance to assist not-for-profit entities to determine whether particular transactions or other events, or components thereof, are within the scope of this Standard, in particular in relation to identifying a contract and identifying performance obligations. If a transaction is outside the scope of this Standard, the recognition and measurement of income arising from the transaction may instead be specified by another Standard, for example AASB 10XX *Income of Not-for-Profit Entities*.

#### Identifying whether a contract with a customer exists

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- F5 A contract is an agreement between two or more parties that creates enforceable rights and obligations. 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 F20–F26, a contract with a customer does not exist and the entity shall not treat the promise as a performance obligation in a contract with a customer. Where a contract with a customer does not exist, the not-for-profit entity shall consider whether AASB 10XX is applicable.

#### Customer

- F6 In contracts with customers, the 'customer' is the party that promises consideration in exchange for goods or services that are an output of the entity's ordinary activities. However, in contracts with customers in any sector, the customer might direct that goods or services are to be provided to third-party beneficiaries (including individuals or the community at large) on the customer's behalf. In these contracts:
- (a) the customer remains the party that has contracted with the entity for those goods or services and promises consideration in exchange for those goods or services; and
  - (b) the provision of goods or services to third-party beneficiaries is a characteristic of the promised transfer of goods or services to the customer.
- F7 For example, a not-for-profit entity in the private sector may receive consideration from a government for the specified purpose of providing first-aid training free of charge to members of the community. The government is the customer because it has contracted the entity to provide the first-aid training services. This conclusion is not affected by the fact that the government specifies that those services are to be provided to members of the community.



## Contract

- F8 In relation to the definition of ‘contract’ in Appendix A, the reference to an ‘agreement’ in that definition shall be read by not-for-profit entities as encompassing an arrangement entered into under the direction of another party (for example, when assets are transferred to an entity with a directive that they be deployed to provide specified services).
- F9 Paragraph 10 states that contracts can be written, oral or implied by an entity’s customary business practices. The customary business practices of a not-for-profit entity refer to that entity’s customary practice in performing or conducting its activities.

## Enforceable agreement

- F10 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 F11–F18 provide guidance for not-for-profit entities on when an agreement creates enforceable rights and obligations.
- F11 An agreement is enforceable when a separate party is able to enforce it through legal or equivalent means. It is not necessary for each promise in the agreement 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. For an agreement to be enforceable by a separate party through ‘equivalent means’, the presence of a mechanism outside the legal system that establishes the right of a separate party to oblige the entity to act in a particular way or be subject to consequence is required.
- F12 An agreement typically is enforceable by another party through legal or equivalent means if the agreement is in writing and includes sufficiently specific requirements of the parties. Oral agreements also may be enforceable. Enforceability needs to be considered in relation to both the particular terms of an agreement and any additional terms agreed by the parties as a result of further discussions or actions. Examples of terms that result in enforceable agreements include the following:
- (a) a refund in cash or kind is required when the agreed specific performance has not occurred;
  - (b) the customer, or another party acting on its behalf, has a right to enforce specific performance or claim damages;
  - (c) the customer has the right to take a financial interest in assets purchased or constructed by the entity with resources provided under the agreement;
  - (d) the parties to the agreement are required to agree on alternative uses of the resources provided under the agreement; and
  - (e) an administrative process exists to enforce agreements between sovereign States or between a State and another party.
- F13 A sufficiently specific, written agreement can be enforceable even if the particular terms do not include refund or other enforcement provisions, since Australian law generally provides remedies of specific performance or damages for breach of an agreement. Agreements that explicitly state they are not intended to be legally binding may nonetheless become enforceable agreements if the parties act in a manner that is inconsistent with the stated intention. Agreements that lack elements of a contract may nonetheless become legally enforceable if there is conduct by one party that causes the other party to act in reliance on such conduct. The enforceability of agreements does not depend on their form. For example, documents such as Memoranda of Understanding, Heads of Agreement and Letters of Intent can constitute legally enforceable agreements; a formal contract is not required.
- F14 In respect of not-for-profit entities, enforcement mechanisms may arise from administrative arrangements or statutory provisions. An example of such an enforcement 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. The ministerial authority to require a transfer of goods or services would be sufficient for an agreement to be enforceable by a separate party through legal or equivalent means.
- F15 In relation to paragraph F11, a consequence 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.

- F16 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 rights. Enforceability depends solely on the customer's capacity to enforce its rights.
- F17 In contrast to the factors in paragraph F11, 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 publishes a statement of intent to spend money or consume assets in particular ways. The statement of intent is generally in the nature of a public policy statement, and does not identify parties who could enforce the statement. Such a statement of intent would, of itself, be insufficient to create an enforceable agreement, even if that statement is the subject of budget-to-actual reporting and of other oversight mechanisms to discharge accountability for the raising of funds, expenditure or consumption of assets. This is in contrast to a letter of intent which is typically an agreement between specifically identified parties. See also paragraph Aus26.1 of AASB 137.
- F18 In relation to paragraph F17(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 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 deduct 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.

## Commercial substance

- F19 Paragraph 9(d) specifies that the Standard applies to a contract with a customer only if (among other criteria) the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract). A contract may have 'commercial substance', for the purposes of paragraph 9(d), even if it is entered into by a not-for-profit entity for purposes that, in everyday language, would be considered 'non-commercial' (for example, contracts to provide goods or services to members of the community on a subsidised or cost-recovery basis). This is because contracts to provide goods or services without generating a commercial return may nonetheless cause a change in the risk, timing or amount of the not-for-profit entity's future cash flows. Accordingly, for the purposes of application of the Standard by not-for-profit entities, 'commercial substance' shall be read as a reference to economic substance (ie giving rise to substantive rights and obligations).

## Identifying whether a performance obligation exists

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- F20 Paragraphs 22 and 30 of AASB 15 require that to enable an entity to identify the performance obligations that it should account for separately, each promise to transfer goods or services needs to be distinct – individually, or if not individually, as a bundle combined with other promises. The specificity of the promise to transfer goods or services can be quite different in the for-profit and not-for-profit sectors. A necessary condition for identifying a performance obligation of a not-for-profit entity is that the promise is sufficiently specific to be able to determine when the obligation is satisfied. Judgement is necessary to assess 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:
- (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; and
  - (d) the period over which the goods or services must be transferred.

- F21 In the not-for-profit context, a service can include an arrangement whereby one entity undertakes specific activities on behalf of another entity. Activities may include service delivery, research or asset management, among others. While the customer might not be receiving the promised goods or services directly in all cases, the customer remains a beneficiary of those promised goods or services.
- F22 Whether a promise is sufficiently specific so as 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 conditions noted in paragraph F20 need to be specified in an agreement for the promise to be sufficiently specific. In addition, there may be other conditions that need to be taken into account in applying the judgement above that may indicate the promise is sufficiently specific.
- F23 Conditions specified regarding the promised goods or services may be explicit or implicit in an agreement. 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. As noted in F17(b) a statement of intent alone is generally not enough to create a performance obligation. Some element of the contract will need to be enforceable and past practice would need to support the customer expectation.
- F24 In relation to paragraph F20(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. For example, 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 an unspecified purpose over a particular time period, such a promise would not meet the 'sufficiently specific' criterion.
- F25 Some not-for-profit entities have a single purpose charter, such as to provide counselling services. However, it is unlikely that an entity's charter or stated objectives would be specific enough to require the recognition of contract liabilities under a contract that provided the entity with a grant for a specified period of time but did not also adequately identify the goods or services to be provided to other parties. Where entities receive a transfer to be used over a particular time period for specified services, such a transfer could meet the 'sufficiently specific' criterion. Specifying the services to be provided under the arrangement and the stipulation to use the transferred funds over a particular time period enables a determination of when the services have been provided. However, if the transfer does not specify the period over which the entity must use the funds or the services to be provided (such as the number of counselling sessions), the entity would not meet the 'sufficiently specific' criterion because it would be unable to determine when it meets the performance obligations.
- F26 An agreement may include a condition that the entity undertakes an acquittal process to demonstrate progress toward transferring goods or services. For example, the terms of an agreement may require the entity to report on progress toward specified outputs or outcomes in an acquittal process. Such an acquittal process may provide evidence of a promise to transfer goods or services that is sufficiently specific, depending on the requirements of the acquittal process and other facts and circumstances. An acquittal process may also enable a determination of progress toward satisfaction of the performance obligation.
- F27 Where a contract provides a transfer of a financial asset for an entity to acquire or construct a non-financial asset (eg a building or an intangible asset) that is to be controlled by the entity, the contract does not establish rights and obligations for the transfer of the non-financial asset to the transferor or other parties. Accordingly, the contract is not a contract with a customer, and hence is not accounted for in accordance with AASB 15. Such contracts are instead accounted for in accordance with paragraphs 15–17 of AASB 10XX. In this case, the transferor has made an in-substance transfer of the non-financial asset to the entity. The entity would retain control of the non-financial asset and use it in its operations, such as to produce goods or services for transfer to other parties under other contracts. A contract to transfer a financial asset for an entity to acquire or construct a non-financial asset that is to be controlled by the entity may be part of a contract that includes other conditions that give rise to performance obligations that require the entity to transfer goods or services to other entities. Those performance obligations are accounted for under AASB 15.

## **Allocating the transaction price to performance obligations**

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- F28 A customer may enter into a contract with a not-for-profit entity with a dual purpose of obtaining goods or services and to help the not-for-profit entity achieve its objectives. An entity shall allocate the transaction price to each performance obligation so that the performance obligation allocation depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised

goods or services to the customer. This is based on the rebuttable presumption that the transaction price is treated as wholly related to the transfer of promised goods or services.

F29 The presumption is rebutted where:

- (a) the transaction price is partially refundable in the event the entity does not deliver the promised goods or services; and
- (b) the element that is not related to the transfer of promised goods or services is separately identifiable.

F30 Where the presumption is rebutted, the entity shall disaggregate the transaction price and account for the component that relates to the transfer of promised goods or services in accordance with this Standard. The remainder of the transaction price shall be accounted for in accordance with AASB 10XX. Whether the element not related to the performance obligation is material, and therefore needs to be accounted for separately, shall be assessed in relation to the individual contract, without reassessment at an aggregate or portfolio level.

F31 To disaggregate the component that relates to the promised goods or services, the following may be indicative of an element that is not related to the promised goods or services (and more likely to be for the purpose of enabling the not-for-profit entity to further its objectives):

- (a) a non-refundable component of the transaction price; and
- (b) where the entity has the status of a deductible gift recipient – the donor can claim part of the transaction price as a tax deduction for a donation.

F32 For example, a not-for-profit heritage foundation sells on-line subscriptions that provide access for a year to particular heritage sites (a promised service to each customer) and invites subscribers to, in addition, donate a non-refundable nominated amount to generally assist the foundation in pursuing its mission. Such a donation, which is voluntary for a subscriber, is separately identifiable from the price of the annual subscription. However, if the annual subscription fee and the donation were both refundable if access were not provided for the entire subscription period, the presumption in paragraph F28 could not be rebutted as the transaction price is refundable in full. In that case, the donation amount would not be accounted for separately but would be included in the transaction price that is allocated to the performance obligation to provide membership access. Consequently, the donation amount would be recognised as revenue when (or as) performance obligations under the arrangement are satisfied in accordance with AASB 15. Similarly, if both elements were equally proportionately refundable to acknowledge access already provided during the year, or if neither element were refundable, then no separation is required as the presumption is not rebutted.

**Comment [GN1]:**  
Question for Board members

A question has been raised as to the intention of separately identifiable as to whether it implies that the amount needs to be separately measurable. Question is whether the criteria to rebut the presumption should be 'or' or 'and'.

## Australian illustrative examples for not-for-profit entities

*These illustrative examples accompany, but are not part of, AASB 15. They illustrate aspects of the Australian guidance for not-for-profit entities in AASB 15, but are not intended to provide interpretative guidance.*

- IE1 The following examples portray hypothetical situations. They are intended to illustrate how a not-for-profit entity might apply some of the requirements of AASB 15 *Revenue from Contracts with Customers* to particular types of transactions, on the basis of the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying AASB 15.

### Identifying performance obligations (paragraphs F20–F27)

- IE2 Examples 1 and 2 illustrate the requirements of AASB 15 for identifying whether a transaction or agreement involves a performance obligation in a contract with a customer.
- IE3 For a performance obligation to exist, there must be an enforceable agreement with sufficiently specific promises to transfer goods or services to or on behalf of the other party to enable assessment of whether the performance has occurred, ie whether the obligation has been satisfied. Further examples are provided in AASB 10XX of transactions or agreements where the performance obligation is not sufficiently specific.

#### Example 1—Enforceable agreement

Local Government A (the reporting entity) signed a Memorandum of Understanding (MOU) with a not-for-profit private sector entity. The MOU specifies that it is not legally binding on either of the parties and does not impose a refund obligation on the not-for-profit entity in the event it fails to perform under the terms of the agreement or refer to other enforceability mechanisms. Despite the statement that the MOU is not legally binding, the parties have indicated in their discussions their intention to rely upon it. The not-for-profit entity has commenced providing services under the MOU and has reported to Local Government A on its first two months' work.

Given the intention of the parties to rely upon the MOU, and the actions of the not-for-profit entity in reliance on the MOU, the MOU is enforceable despite the statement that it is not legally binding and the absence of a refund obligation or other enforcement requirements.

#### Example 2—Sufficiently specific research activities, outputs and outcomes, acquittal process

University A receives a cash grant from a donor, Medical Research Trust Z, of \$1.2 million to undertake research that aims to identify and validate biomarkers to distinguish life-threatening cancers from benign tumours.

The terms of the grant are:

- a period of three years, with specified milestone targets;
- the return of funds that are either unspent or not spent in accordance with the agreement;
- annual progress reports that detail the scientific progress, accomplishments and compliance with the terms of the grant;
- the research results are publicised in conference presentations and/or published in scholarly journals;
- the submission of a final report; and
- the ownership of the intellectual property (IP) rights arising from the research activity vests with the donor, Z.

The above fact pattern applies to Examples 2A–2C, described below. Each example is considered in isolation.

##### Example 2A – Enforceable, sufficiently specific performance obligation, donor's asset

University A concludes its arrangement with donor Z is a contract with a customer as defined in AASB 15. This is on the basis that:

- University A’s promise of specified research is enforceable as the grant is refundable if the research is not undertaken;
- University A identifies each promise to transfer goods or services to the donor and assesses them separately to determine which promises, if any, are sufficiently specific to be performance obligations. Based on the wording in the grant agreement, the university determines that in this instance its promise to undertake research that identifies and validates biomarkers is distinct as a single performance obligation. This performance obligation is satisfied over time as the university’s performance creates or enhances an asset (knowledge) that the donor controls, since the IP rights vest with donor Z rather than University A; and
- University A determines that the requirements for annual progress reports and a final report and public dissemination of research results are an acquittal process and will enable it to measure its progress towards satisfaction of the performance obligation.

Accounting treatment

In accordance with AASB 15, University A allocates the cash grant to its identified performance obligation and recognises the financial asset (cash) and a contract liability of \$1.2 million on initial recognition. University A recognises revenue over time as it satisfies the performance obligation, with progress measured as the university meets its milestone targets.

**Example 2B – Enforceable, sufficiently specific performance obligation, open rights**

In this example, the facts set out in Example 2 apply, except that the research data and results are available under creative commons rights to the general public, instead of the IP rights arising from the research vesting with donor Z. University A also does not control the IP arising from the research.

University A concludes that the arrangement is a contract with a customer as defined in AASB 15 on the basis that:

- University A’s promise of specified research is enforceable as the grant is refundable if the research is not undertaken;
- the university identifies its promise to undertake the research is sufficiently specific and represents a single performance obligation;
- the undertaking of the research will represent services provided to the donor, as it is a beneficiary of the research even though the research data and results are publicly available; and
- University A determines that the requirements for annual progress reports and a final report and public dissemination of research results are an acquittal process and will enable it to measure its progress towards satisfaction of the performance obligation.

Accounting treatment

The accounting is the same as set out in Example 2A. That is, in accordance with AASB 15, University A allocates the cash grant to its identified performance obligation and recognises the financial asset (cash) and a contract liability of \$1.2 million on initial recognition. University A recognises revenue over time as it satisfies the performance obligation, with progress measured as the university meets its milestone targets.

**Example 2C – Construction of a non-financial asset (the research results), recipient’s asset**

In this example, the facts set out in Example 2 apply, except that the research results are not published, and ownership of the intellectual property rights (IP) arising from the research activity vests with University A.

As this is a transfer made to enable University A to “construct” (develop) a non-financial asset (the research results) that it will control for use in its own activities, the transaction is not a contract with a customer. The key economic benefits from the research are controlled by the university in the form of the detailed research data and commercial use of the data would require the approval of University A. As the grant is also a transaction where the consideration for the cash received is significantly less than fair value principally to enable the university to achieve its objectives, it is therefore accounted for in accordance with paragraphs 15–17 of AASB 10XX.

**Comment [CMA2]:**  
Question for Board members

Please refer to accompanying agenda paper 1.1 for a discussion of treating the development of research (and other non-recognisable assets) under the non-financial asset exception.

**Allocating the transaction price to performance obligations (paragraphs F28–F32)**

IE4 Examples 3 and 4 illustrate the requirements of AASB 15 for accounting for the transaction or agreement, including assessing whether the transaction includes an identifiable element not related to performance obligations (eg a donation).

**Example 3—Performance obligation, transfer of goods without identifiable donation element**

Entity A (a not-for-profit entity) sells chocolates in a fundraising drive for a greater margin than a for-profit entity would typically generate by selling chocolates. In addition, buyers of the chocolates are often motivated by the not-for-profit entity's benevolent aims. The customer is entitled to a full refund of the purchase price if the chocolates were ordered and paid for in advance and either the delivered chocolates were spoiled or Entity A is unable to deliver the chocolates.

Entity A determines there is a contract with a customer accounted for under AASB 15, as there is:

- an enforceable contract due to the return obligation; and
- a sufficiently specific performance obligation requiring the transfer of the chocolates to the customer, which is satisfied at the time of delivery.

Entity A determines that the presumption in paragraph F28 cannot be rebutted because the transaction price is not partially refundable.

Accounting treatment

Accordingly, the entire consideration received, including the proceeds from the additional profit margin, forms part of the transaction price that is allocated to the performance obligation. There is no donation element requiring separate accounting.

**Example 4—Performance obligation, transfer of goods with identifiable donation element**

Entity B holds an annual fundraising dinner in its local community. The ticket price is \$600 per head, and is partially refundable if the dinner is cancelled, in which case the customer will receive a refund of \$300. Based on the menu, the retail price of the dinner at a local restaurant is \$200 per ticket. Hosting the dinner also provides patrons (customers) with the benefit of socialising with a wide range of community members (including networking) and \$250 reflects the amount of consideration to which Entity B expects to be entitled in exchange for transferring the promised goods or services (the dinner and networking) to the customer.

Entity B determines there is a contract with a customer to be accounted for under AASB 15, as there is:

- an enforceable contract due to the return obligation; and
- a sufficiently specific performance obligation requiring the provision of the dinner and networking to the customer, which would be satisfied at the point in time when provided.

Entity B determines that the presumption in paragraph F28 is rebutted as there is a partial refund in the event of non-performance, the element not related to the performance obligation (the donation) is separately identifiable (the non-refundable amount is sufficiently large in relation to the performance obligation element to indicate it is not just a different measurement perspective) and it does not relate to a performance obligation. The donation element is considered material.

Accounting treatment

For each ticket sold, Entity B recognises:

- a contract liability of \$250, in accordance with AASB 15, which represents the transaction price of the dinner and networking to be provided to the ticketholder. Entity B would recognise this amount as revenue when it provides the dinner event; and
- income of \$350, in accordance with AASB 10XX – the residual of \$350 is a result of a transaction where the consideration provided by the entity (\$250) is significantly less than the fair value of the asset (cash of \$600) principally to enable Entity B to further its objectives and therefore AASB 10XX applies, with immediate recognition of income.

A refund obligation is recognised only to the extent that an entity does not expect to receive the refundable amount. Entity B therefore does not recognise the refund obligation of \$300 unless the dinner is cancelled or is expected to be cancelled. In that case, and subsequent to the initial accounting above, Entity B would then recognise in respect of each ticket:

- the reversal of the contract liability of \$250 (debit), as settlement is no longer expected;
- a reduction in cash of \$300 (credit), being the refund to the ticket holder; and
- the difference of \$50 (debit) is either an expense or a reduction of donation income previously recognised.

This results in a net donation of \$300 per ticket, reflecting the net cash received for each ticket after the refund has been made.



## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, AASB 2016-X.*

### Introduction

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BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in this Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

#### The need for change

BC2 Prior to the issue of AASB 15 *Revenue from Contracts with Customers*, the recognition and measurement requirements for transactions of not-for-profit entities giving rise to income depended on whether the transaction was reciprocal or non-reciprocal in nature. The accounting for income arising from reciprocal transactions was predominantly addressed in AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The accounting for income arising from non-reciprocal transactions was addressed in AASB 1004 *Contributions*.

BC3 The Board observed determining whether a transaction was reciprocal or non-reciprocal in practice was not always straightforward. Entities found it challenging to determine whether approximately equal value had been provided in exchange to the other party or parties to the transfer, and contended that in many instances the immediate recognition of income in a non-reciprocal transaction did not faithfully represent the underlying financial performance of the entity. Constituents noted that identifying reciprocal transactions was difficult and that diverse interpretations existed, with some entities recognising transactions with return obligations and specified performance outcomes as reciprocal transactions and some not. Constituents were also concerned about the income recognition requirements as applied to grants, appropriations and other transfers of assets made on the condition that the not-for-profit entity deliver goods or services to nominated third parties. Constituents also noted difficulties in discussing financial information with grantors/donors when explaining why they needed additional resources when the financial statements indicated no such need because of the immediate income recognition requirement of AASB 1004. Users noted they did not think the financial statements were reflecting the economic reality of the not-for-profit entities’ financial circumstances. Accordingly, the Board decided to undertake a project to conduct a fundamental review of the income recognition requirements applying to not-for-profit entities.

BC4

BC5 As a consequence of its policy on transaction neutrality, the Board gave consideration to International Accounting Standards Board developments in the accounting for revenue; finalised with the issue of IFRS 15 *Revenue from Contracts with Customers* in May 2014 and noted it needed to determine what, if any, amendments and guidance would be required to enable not-for-profit entities to apply this Standard. In addition, the Board noted the application of the performance obligation approach to revenue recognition adopted in IFRS 15, using a broader concept of customer had the potential to resolve some of the issues noted with AASB 1004. The Board also had regard to the work of the International Public Sector Accounting Standards Board (IPSASB) in developing its income recognition requirements for ‘non-exchange’ transactions.

BC6 The Board’s proposals with respect to the accounting for income of not-for-profit entities finalised in this Standard were exposed for public comment in April 2015 as part of ED 260 *Income of Not-for-Profit Entities*. In developing ED 260, the Board considered both the feedback received on the immediate predecessor Exposure Draft, ED 180 *Income from Non-Exchange Transactions (Taxes and Transfers)*, and the requirements of AASB 15 *Revenue from Contracts with Customers*. ED 260 proposed both revisions to the income recognition principles in AASB 1004, and development of guidance and illustrative examples to assist not-for-profit entities in implementing AASB 15.

BC7 As part of its due process on this project, the Board held roundtables in Melbourne, Brisbane, Sydney and Canberra, and discussed the proposals at various forums, workshops and discussion groups. In addition, to help ensure it considered implications of its proposals on entities with different objectives (eg charities, local government), the Board conducted several targeted meetings. The Board received comments on its exposed proposals both formally via 34 submissions on the Exposure Draft, and informally via email, meetings with constituents, presentations to various bodies and social media. About half the respondents to the Exposure Draft explicitly considered that overall, the proposals would result in financial statements that would be useful to users. Many of these qualified their support, observing that the proposals would not fully resolve

the current dissatisfaction with existing income recognition requirements. Following the consultation period, and after considering constituent comments received, the Board decided to proceed with issuing revised principles for the recognition and measurement of income of not-for-profit entities.

- BC8 In response to the feedback received, the Board amended or clarified various proposals in the Exposure Draft as part of issuing the final guidance. As part of its processes in this regard, the Board decided to establish a Project Advisory Panel consisting of preparers and advisors to provide input to the revised proposals. The Board considered that, overall, its decisions on this project did not significantly depart from those exposed in a manner that adversely affects entities applying the Standard. However, in order to satisfy itself that sufficient due process had been undertaken, the Board invited public comment on both a discussion draft before the Board at its August 2016 meeting and a final draft - publicised via its weekly newsletter.
- BC9 The Board decided to finalise its proposals exposed in ED 260 by:
- (a) issuing AASB 10XX to address the accounting for income of not-for-profit entities. The Standard establishes principles for not-for-profit entities that apply to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable a not-for-profit entity to further its objectives, and to the receipt of volunteer services;
  - (b) issuing AASB 2016-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* to add implementation guidance to AASB 15 and AASB 9 as well as illustrative examples to AASB 15 to assist not-for-profit entities in applying the Standard;
  - (c) retaining AASB 1004 *Contributions*, amended to exclude transactions now addressed by AASB 10XX; and
  - (d) issuing AASB 2016-W *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities* to defer the effective date of AASB 15 for application by not-for-profit entities.

## Amendments to AASB 9

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### Non-contractual receivables arising from statutory requirements

- BC10 In ED 260 the Board proposed asset recognition requirements for AASB 10XX that overrode the recognition criteria of other Australian Accounting Standards. Under those proposals entities would have recognised an asset and measured it at fair value in accordance with the proposed requirements and then subsequently measured that asset in accordance with its applicable Standard. In its redeliberations on ED 260 the Board decided not to proceed with the asset recognition requirements it proposed in the ED. Instead, the Board decided to clarify consequential amendments to other Standards that specify the initial measurement requirements for transactions within the scope of AASB 10XX.
- BC11 As part of its redeliberations the Board observed that entities with statutory receivables, such as from taxes and fines, would not be required to apply AASB 9 to those receivables as they are not financial assets as defined in AASB 132 *Financial Instruments Presentation* because there is no contract that provides the entity with the right to future cash flows. However, the Board held the view that the initial fair value measurement requirements of AASB 9 are the most appropriate for the types of receivables under consideration as the economic substance of contractual receivables and receivables arising from statutory requirements is similar at initial recognition and therefore decided to require that AASB 9 be applied for the initial measurement of such receivables. The Board also considered that requiring entities to apply AASB 9 for the initial measurement of non-contractual receivables arising from statutory obligations addressed the uncertainty surrounding the appropriate treatment of those receivables.
- BC12 Accordingly, the Board decided to amend AASB 9 to require that non-contractual receivables arising from statutory requirements should initially be measured in accordance with that Standard as if those receivables were financial instruments. The Board considered whether the subsequent measurement requirements of AASB 9 should also apply to statutory receivables; however, the Board noted:
- (a) constituent feedback indicating the impact of the subsequent measurement requirements of AASB 9 needs further consideration; and
  - (b) the International Public Sector Accounting Standards Board (IPSASB) had recently embarked on its *Public Sector-Specific Financial Instruments* project to consider requirements for public sector financial instruments that are not within the scope of IFRS 9 *Financial Instruments*.

- BC13 Accordingly, the Board decided not to require entities to apply the subsequent measurement requirements of AASB 9 to statutory receivables. Instead, the Board decided to monitor the IPSASB's project and consider the subsequent measurement of statutory receivables in a future project.
- BC14 The Board noted that applying AASB 9 only for initial recognition of non-contractual statutory receivables could cause confusion and therefore decided to add guidance to accompany AASB 9.
- BC15 The Board decided not to address non-contractual payables at this stage given the scope of the project is related to not-for-profit income. However, the Board decided to consider non-contractual payables at a future date while monitoring the work of the IPSASB on its public sector specific financial instruments project.

## Amendments to AASB 15

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- BC16 The Board conducted a comprehensive review of AASB 15 to determine where additional not-for-profit guidance might be required. As a result, the Board decided to develop guidance for not-for-profit entities including addressing:
- (a) how not-for-profit entities should apply terminology used in in AASB 15;
  - (b) when an agreement with another party creates enforceable rights and obligations; and
  - (c) how to identify when performance obligations exist, requiring a promise to transfer a good or a service to be specified in sufficient detail to be able to determine when the obligation is satisfied.
- BC17 In addition to the guidance mentioned above, the Board also decided to make some amendments to the body of AASB 15:
- (a) to require that transfers which enable an entity to acquire or construct a non-financial asset to be controlled by the entity be accounted for in accordance with AASB 10XX, not AASB 15; and
  - (b) to clarify that any contract that is not enforceable or does not contain sufficiently specific performance obligations is not within the scope of AASB 15 for not-for-profit entities.
- BC18 The Board observed that not-for-profit entities might receive transfers of financial assets that the entity must use to acquire or construct a non-financial asset that the entity will control. The Board noted various views on the requirements that should apply to these transfers, which could result in divergence in practice. The Board considered that these transfers are an in-substance transfer of the underlying non-financial asset the entity must acquire or construct. Accordingly, the Board decided to specify accounting requirements for these transfers in AASB 10XX and to clearly state that these transfers are not within the scope of AASB 15 for not-for-profit entities.
- BC19 The Board noted that paragraph 15 of AASB 15 specifies requirements for contracts with customers that do not meet the criteria in paragraph 9 of AASB 15. For the purposes of the guidance the Board developed to accompany AASB 15 the Board noted, in particular, that some of the criteria in paragraph 9 relate to enforceable agreements and sufficiently specific performance obligations. The Board considered that the requirements of paragraph 15 would create ambiguity in the context of AASB 10XX and the additional guidance the Board developed to accompany AASB 15. Consequently, the Board decided to amend AASB 15 to state that any contract of a not-for-profit entity that is not enforceable or does not contain sufficiently specific performance obligations is not within the scope of AASB 15. Moreover, not-for-profit entities would need to consider whether that contract should be accounted for in accordance with AASB 10XX. The Board noted that this amendment would help to avoid confusion and divergence in practice.

## Terminology

- BC20 Not-for-profit entities often receive assets through grants and other transactions, where those transactions:
- (a) are not described as contracts, even though they may be part of agreements that specify the goods or services to be transferred by the recipient of the grant;
  - (b) are not described as transactions with 'customers';
  - (c) might impose an obligation to transfer goods or services; or
  - (d) might require a not-for-profit entity to provide benefits to third party beneficiaries when they transfer promised goods or services.

In these circumstances, the party, or parties, that should be regarded as the 'customers' might be unclear.

- BC21 The Board considered whether to make modifications to some terms in AASB 15 that would be clearer for not-for-profit entities to apply. In developing ED 260 the Board decided to maintain a transaction-neutral approach to any modifications it might consider to AASB 15. In this context, the Board reviewed the definitions of a ‘customer’ and of a ‘contract’ to determine whether a modification was necessary or whether additional not-for-profit guidance would be sufficient.
- BC22 The Board concluded that these aspects do not warrant using different terms other than ‘contract’ and ‘customer’ because additional guidance on how those terms apply in a not-for-profit context would provide sufficient direction for entities while maintaining the Board’s transaction-neutral approach. Accordingly, in ED 260 the Board decided to clarify those terms in a not-for-profit entity context. Feedback on ED 260 indicated broad support for the proposed clarifications, and therefore the Board decided to finalise its proposals in that regard.

### Customer

- BC23 In a contract with a customer, the customer may direct that goods or services are to be provided to third party beneficiaries (whether employees, other individuals or the community at large) on the customer’s behalf. The Board noted the IASB’s considerations in its Basis for Conclusions to IFRS 15, specifically paragraphs BC54 and BC55 where the IASB argued that the definition of a ‘customer’ could extend beyond the parties specifically identified in a contract, thereby potentially satisfying the definition of a ‘customer’ to be in scope of IFRS 15. The Board noted that the IASB’s considerations highlighted in paragraphs BC54 and BC55 concur with the Board’s views. However, the Board noted that while the IASB expressed this view in its Basis for Conclusions to IFRS 15, not-for-profit entities would need more authoritative guidance.
- BC24 Consistent with the IASB’s conclusions, the Board acknowledged that identifying the ‘customer’ in a contract may not always be straightforward for not-for-profit entities. For example, the Board noted that not-for-profit entities routinely receive grants where the grantor requires the entity to provide services to unspecified third parties. In all other respects the grant would be within the scope of AASB 15. In this example, it is unclear whether those unspecified third parties could be considered ‘customers’ in the contract or whether the grantor is the customer.
- BC25 The Board clarified that in contracts with customers, the customer is usually the party that has contracted with the entity for those goods or services and promises consideration in exchange for those goods or services, regardless of whether there are third party beneficiaries. Although this principle applies to entities in both the for-profit and not-for-profit sectors, the Board decided to add not-for-profit entity clarification of this principle, in view of:
- (a) the likely greater prevalence of third party beneficiaries in contracts entered by not-for-profit entities; and
  - (b) uncertainty about this issue expressed to the Board in its project outreach activities.

### Contract

- BC26 The Board noted that a ‘contract’ is defined in AASB 15 as “an agreement between two or more parties that creates enforceable rights and obligations” and that paragraph 10 of AASB 15 states that contracts can be written, oral or implied by an entity’s customary business practices. The Board considered that this definition and guidance are sufficiently broad to address the issues noted in paragraph BC20, and should readily be able to be applied by not-for-profit entities. The Board acknowledged, however, that clarification was necessary for not-for-profit entities in relation to some specific aspects of applying the definition.
- BC27 The Board observed that not-for-profit entities might require additional guidance to distinguish sufficiently specific performance obligations for the purposes of AASB 15 and constructive obligations for the purposes of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. In particular, the Board considered a range of statements not-for-profit entities make regarding, for example, their purpose or reason for a particular fundraising. The Board noted that some of these statements could give rise to:
- (a) sufficiently specific performance obligations;
  - (b) constructive obligations; or
  - (c) the immediate recognition of income.
- BC28 The Board decided that the distinguishing characteristics of an arrangement that would result in any of the above outcomes requires further clarification given the broad range of arrangements not-for-profit entities enter into. The additional guidance would assist entities in determining an appropriate accounting treatment that more accurately reflects the effects of the entity’s arrangements on its financial performance.

- BC29 Based on feedback to ED 260 indicating uncertainty regarding the determination of enforceability, particularly for documents not specifically identified as contracts, the Board also decided to clarify:
- (a) that a ‘contract’, for the purposes of AASB 15, can extend to arrangements such as Memoranda of Understanding, Heads of Agreement and Letters of Intent if those arrangements are enforceable given that not-for-profit entities might not enter arrangements that are explicitly defined as contracts; and
  - (b) the factors to consider when determining if a contract is enforceable (see paragraphs BC30–BC37).

## Enforceable agreements

- BC30 The Board noted that obligations can include those that are legal, constructive and economic in nature. AASB 15 states that a contract is an agreement between two or more parties that creates enforceable rights and obligations. The Basis for Conclusions to IFRS 15 paragraph BC32 states that in determining whether a contractual right or obligation is enforceable is a question to be considered within the context of the relevant legal framework (or equivalent framework) that exists to ensure that the parties’ rights and obligations are upheld. In ED 260 the Board decided to propose not-for-profit entity-specific guidance to help entities identify whether an agreement creates enforceable rights and obligations. This is because:
- (a) moral obligation and economic compulsion can be seen as the motivation for many of the activities of not-for-profit entities;
  - (b) 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
  - (c) 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.
- BC31 In developing the Exposure Draft, and in finalising the requirements of this Standard, the Board sought input from legal practitioners on some of the most common characteristics that could make an arrangement enforceable.
- BC32 The Board observed that AASB 15 paragraph 10 states that the enforceability of rights and obligations in a contract is a matter of law. In this regard, the Board noted Australian law has a legal mechanism for the resolution of contractual disputes that establish the rights of a separate party, being the judiciary, to oblige the entity to act in a particular way thereby leaving that entity with little, if any, discretion to avoid settling an obligation. For an agreement to be enforceable by equivalent means would require the presence of a mechanism outside of the legal system that establishes the right of a separate party to oblige the entity to act in a particular way thereby leaving that entity with little, if any, discretion to avoid settling an obligation.
- BC33 The Board considered 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, ‘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.
- BC34 In contrast to the capacity referred to in paragraph BC33, a transferor’s capacity to withhold future funding to which the entity is not presently entitled is substantially different. The ability of a funding provider to withhold future, uncommitted, funding is a source of economic compulsion for the funding recipient. This is because the recipient might be economically compelled to undertake a present activity to secure that future funding. 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.
- BC35 The Board 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 Board 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.

- BC36 Feedback to the guidance provided in ED 260 indicated constituents would continue to have difficulty applying the 'enforceable' criterion, despite the proposed additional guidance. In considering the feedback received, the Board significantly expanded the 'enforceability' guidance to include a range of factors that could potentially result in an enforceable arrangement. The Board clarified that a return obligation is merely an indicator of enforceability, and not the only indicator. The Board also noted that where parties to the arrangement need to mutually agree on any changes to the use to which transferred funds are put, that this constitutes enforceability, as neither party has the ability to unilaterally make decisions regarding the assets transferred. The Board noted, however, that the guidance is general in nature and, while it is intended to be helpful in assisting entities assess the enforceability of arrangements, it does not constitute legal advice. Accordingly, the Board noted that, depending on the complexity of the individual facts and circumstances, entities might still need to obtain specific legal advice in regard to their arrangements.
- BC37 The Board also sought feedback from its Project Advisory Panel on the revised guidance on enforceability and observed the feedback was generally positive. The Panel considered the guidance was useful within the confines of not providing specific legal advice. Accordingly, the Board decided to finalise its clarifications by including the additional guidance in the final Standard.

## Identifying performance obligations

- BC38 The Board noted that a performance obligation in IFRS 15 meets the definition of a liability in the AASB *Framework for the Preparation and Presentation of Financial Statements* as it requires an outflow of resources in settlement of an obligation. Accordingly, a key aspect of a performance obligation is that there is a transfer of goods or services to another party that is not at the discretion of the provider. In a not-for-profit context the Board determined that due to the prevalence of transfers of assets to not-for-profit entities that further guidance on identifying performance obligations was warranted.

## Sufficiently specific requirements

- BC39 Some transfers of assets to not-for-profit entities are provided with no, or minimal, terms and conditions regarding how the transferred assets must be used other than 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 solely on condition 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 this general requirement from any of the not-for-profit entity's other goods or services provided.
- BC40 The circumstances described in paragraph BC39 are much more prevalent in the not-for-profit sector than the for-profit sector, and may raise issues regarding which terms and conditions attached to assets transferred to a not-for-profit entity give rise to performance obligations. The Board decided to propose a principle in ED 260 that to qualify as a performance obligation a not-for-profit entity's enforceable promise to transfer goods or services must be sufficiently specific to allow the entity to determine when the performance obligation is satisfied, as this indicates the transfer of goods or services is not at the discretion of the provider
- BC41 The Board also decided to propose not-for-profit entity guidance:
- noting that applying the 'sufficiently specific' criterion requires judgement; and
  - identifying particular conditions to consider in determining whether a promise is 'sufficiently specific' to qualify as a performance obligation.
- BC42 The Board considered whether to identify particular conditions as essential for treating a promise to transfer a good or a service as 'sufficiently specific'. The Board concluded that:
- no particular condition regarding a promise to provide a good or service would ensure the proposed principle in paragraph BC40 is met; and
  - 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.
- BC43 For example, the Board:
- 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 were to be mandatorily present, 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 Board’s policy of transaction neutrality.

BC44 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. In relation to that aspect, the Board 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 Board considers that such a 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.

BC45 The Board considered whether its view above 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 Board 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.

BC46 The Board noted the majority of feedback on ED 260 indicated support for the principle described in paragraph BC40. Some constituents raised concerns about:

- (a) linking ‘enforceability’ with ‘sufficiently specific’ for grant arrangements could mean many grants do not fall within the scope of AASB 15;
- (b) measuring progress toward satisfying a performance obligation would be difficult in many of the arrangements not-for-profit entities enter into;
- (c) how to determine whether goods or services are transferred, and if so how to determine when a transfer occurs. For example, research undertaken as part of a research grant, it may be unclear whether, or when, a transfer of goods or services occurs; and
- (d) determining if a contract is within the scope of AASB 15 if the customer does not receive the promised goods or services because it directs the entity to transfer those goods or services to third parties.

BC47 In regard to research grants the Board noted that such grants typically:

- (a) require the recipient to undertake a specified research activity, usually on the basis of a proposal in the grant application; and
- (b) require the researcher to publicly publish their research findings, either in a government report, research journal or similar format.

BC48 The Board observed that the above features of research grants would typically be sufficiently specific but may cause difficulty in measuring progress toward the satisfaction of a performance obligation. The Board noted that paragraphs 39–45 of AASB 15 focus on measuring progress toward satisfying a performance obligation with reference to input methods and output methods. The Board observed that either of these methods could be problematic to apply in the context of performing research as required by a research grant. Accordingly, the Board decided to clarify that the undertaking of the research, which may be seen as an activity undertaken on behalf of another party, could constitute a service for the purposes of AASB 15.

BC49 In response to further feedback received on the Exposure Draft, the Board included additional guidance on both ‘enforceability’ and ‘performance obligations’. In particular the Board clarified:

- (a) when a grant could be considered as part of an enforceable agreement (such as if a return obligation exists and other circumstances as set out in BC30–BC37) and how to determine if the requirements of the grant are sufficiently specific;
- (b) the effect of time-period conditions on whether a performance obligation exists;
- (c) whether a grant made to a ‘single purpose’ entity to be used for its sole purpose constituted a performance obligation;
- (d) the recipient of the transferred goods or services need not be the customer identified in the contract for the contract to be within the scope of AASB 15.

BC50 Consequently, the Board retained in the final Standard the principle that a performance obligation only exists if it is sufficiently specific to enable the entity to determine when it has satisfied that obligation. In response to the feedback on ED 260 the Board finalised its proposals with the additional guidance noted above.

### **Allocating the transaction price to performance obligations**

BC51 A customer may enter into a contract with a not-for-profit entity with a dual purpose of obtaining goods or services and donating assets to help the not-for-profit entity achieve its objectives. The donation represents the amount of consideration that is not attributable to the goods or services promised by the entity to its customer. The Board considered that, to represent faithfully the substantially different components of such a contract of a not-for-profit entity, in principle it is important that the donation component is:

- (a) disclosed separately from the revenue arising from transferring a good or service to the customer; and
- (b) recognised when the entity recognises the donated asset(s)—which might be a different time from when the entity transfers the promised good or service to the customer.

BC52 Accordingly, the Board proposed in ED 260 to require a separately identifiable donation component in a contract with a customer be accounted for as income immediately. ED 260 proposed that such a donation component be identified in a two step model:

- (a) determine whether the customer intended to make a donation to the entity; and
- (b) separately identify the donation component from the goods or services promised in the contract.

BC53 Feedback on the ED 260 model indicated significant concern in relation to implementing the two-step process. The primary concern raised was that assessing the customer’s intent when making the donation would be highly subjective and, for many transactions, such an assessment could not be made due to a lack of evidence. Despite these concerns, the majority of respondents agreed that any donation component included in a contract with a customer should be separated from the contract and accounted for in accordance with AASB 10XX.

BC54 To address constituent concerns the Board decided to replace the two-step model with a rebuttable presumption. The presumption is that the total transaction price in a contract with a customer is related to the transfer of the promised goods or services. That is, the entire transaction price is presumed to compensate the entity for the goods or services. Where the transaction price is only partially related to the transfer of the promised goods or services the presumption is rebutted and the transaction price split into its component parts.

BC55 The Board noted, however, that requiring entities to rebut the presumption solely based on whether a component of the transaction price is not related to the transfer of promised goods or services might be difficult to apply in practice. The Board considered that such an approach would impose undue cost and effort to require entities to assess the nature of component parts of the transaction price for every contract with a customer. Such a requirement would be particularly difficult in the case of research grants as discussed in paragraphs BC47 and BC48.

BC56 To address this concern, the Board identified two criteria that must be met for the presumption to be rebutted:

- (a) the transaction price must be partially refundable in the event the entity does not deliver the promised goods or services; and
- (b) the donation element of the transaction price that is not related to the transfer of the promised goods or services must be separately identifiable.

BC57 The Board observed that a partially refundable transaction price usually indicates that some part of the transaction price might not relate to the transfer of the promised goods or services. A non-refundable component of the transaction price might represent a donation or grant to the entity. However, the Board



also noted the guidance in paragraphs B48–B51 of AASB 15 which relate to non-refundable upfront fees. That guidance illustrates that in some cases a non-refundable upfront fee could still relate to the transfer of promised goods or services, in which case the non-refundable upfront fee could form part of a performance obligation and be recognised as revenue when the obligation is satisfied. The Board noted that donations very rarely relate to the transfer of promised goods or services and therefore concluded that its guidance attached to AASB 15 does not override the guidance of paragraphs B48–B51.

- BC58 The Board concluded the revised approach addressed constituent feedback on the two-step model it proposed in ED 260. In particular, the rebuttable presumption does not require entities to consider the customer’s intent when entering into a contract with the entity. To help ensure the rebuttable presumption was practicable, the Board sought feedback on this approach from its Project Advisory Panel. The Panel supported the revised approach, and consequently the Board decided to finalise the rebuttable presumption. The presumption ultimately applies the Board’s view exposed in ED 260 that separate components of a contract should be accounted for in accordance with the applicable Standard using the revised guidance.

## Materiality

- BC59 The Board proposed in ED 260 that an assessment of whether a donation component of an entity’s contract with a customer is material should be made at a contract level and not reassessed at another unit of account, such as for a portfolio of similar contracts. The Board considered this approach would likely achieve a better balance of costs and benefits than if the materiality of donation components were to be assessed at the portfolio level of similar contracts. In its redeliberations the Board decided to confirm its approach to assessing the materiality of donation components within contracts with customers because of the balance between costs and benefits that it provides.

## Disclosures

- BC60 As part of the Board’s review of AASB 15 it also considered whether not-for-profit entities should be exempted from any disclosure requirements in AASB 15. The Board considered those disclosures in the context of the Tiers of Australian Accounting Standards. Specifically, not-for-profit entities (other than the Australian Government and State, Territory and Local Governments) are not required to comply with Tier 1 reporting requirements in their general purpose financial statements in accordance with AASB 1053 *Application of Tiers of Australian Accounting Standards*. Those entities may choose to apply Tier 1 reporting requirements but are otherwise required to only comply with Tier 2 reporting requirements in their general purpose financial statements. The Board observed its policy for developing Tier 2 reporting requirements specifically considers the nature and characteristics of not-for-profit entities. Consequently, the Board decided it had already considered any not-for-profit entity-specific disclosure issues in AASB 15 as part of its process for developing Tier 2 reporting requirements for that Standard. Accordingly, the Board decided not to make any amendments to the disclosure requirements in AASB 15 for not-for-profit entities.

## Effective date

- BC61 The Board proposed in ED 260 that AASB 10XX and this Standard apply when AASB 15 is applied or operative, which is from 1 January 2018. Constituents raised concerns on that proposal, noting (among others):
- (a) general uncertainty in the not-for-profit sector about the accounting requirements that would apply given the Board’s work on this project and the various proposals made over the lifetime of the project;
  - (b) when AASB 10XX is issued not-for-profit entities will need to determine its interaction with AASB 15 and other Australian Accounting Standards. With a proposed effective date of 1 January 2018 not-for-profit entities were concerned that their lead-time to apply the requirements would be significantly less than that provided to for-profit entities to apply AASB 15; and
  - (c) AASB 10XX permits a greater number of other Australian Accounting Standards to apply to transactions that were previously solely in scope of AASB 1004. Not-for-profit entities commented that they needed further time to understand the interaction of those Standards with their transactions that previously were solely accounted for under AASB 1004.
- BC62 The Board agreed with constituents and decided to defer the application date of AASB 10XX by one year to 1 January 2019. In making this decision the Board also considered whether it should defer the application date of AASB 15, including the application guidance in this Standard, by one year for not-for-profit entities. The Board noted that having different application dates for AASB 10XX and AASB 15 would, among other issues:

- (a) introduce a period where entities recognise revenue in accordance with AASB 15 and apply AASB 1004 to other transactions outside the scope of AASB 15; and
  - (b) potentially require entities to re-evaluate their contracts with customers for donation elements when applying AASB 10XX in a later period, thereby lengthening the transition process.
- BC63 Consequently, the Board also deferred the application date of AASB 15 to 1 January 2019 for not-for-profit entities. In deferring the application date of AASB 15 the additional guidance for not-for-profit entities will also be deferred. However, the Board decided to retain the ability for entities to apply AASB 15, including the additional guidance for not-for-profit entities in this Standard, and AASB 10XX to an earlier reporting period, so long as they are applied together.

### Illustrative examples

- BC64 The Board proposed a number of illustrative examples in ED 260 while noting that it was yet to determine where to locate each example; either to accompany AASB 10XX or as part of the guidance to AASB 15. The Board noted it would decide on the location of the respective examples after it had received feedback on the ED.
- BC65 When reviewing the feedback on ED 260 the Board noted the majority of concerns were related to the ‘enforceability’ and ‘sufficiently specific’ guidance in the ED. Consequently, the Board agreed that the examples accompanying the guidance should illustrate:
- (a) enforceability;
  - (b) the application of the ‘sufficiently specific’ requirement; and
  - (c) separating a donation element from a contract with a customer.
- BC66 The Board decided to add an example to those accompanying AASB 10XX that illustrates a transaction that includes a contract with a customer. The example is intended to highlight when a transaction could include a contract with a customer and then direct users to the guidance accompanying AASB 15. The Board decided the remaining topics covered by illustrative examples in ED 260 should accompany AASB 10XX.

### Comparison with International Public Sector Accounting Standards

- BC67 As part of its deliberations, the Board considered the accounting for income of not-for-profit entities specified by the International Public Sector Accounting Standards Board (IPSASB). The Board noted the following International Public Sector Accounting Standards (IPSAS) specified the accounting in this regard:
- (a) IPSAS 9 *Revenue from Exchange Transactions*;
  - (b) IPSAS 11 *Construction Contracts*; and
  - (c) IPSAS 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)*.
- BC68 The Board observed IPSAS 9 and IPSAS 11 are based on the principles of superseded IAS 18 *Revenue* (incorporated into AASB 118 *Revenue*) and IAS 11 *Construction Contracts* (incorporated into AASB 111 *Construction Contracts*), rather than those of IFRS 15 *Revenue from Contracts with Customers* (incorporated into AASB 15). In addition, it noted that IPSAS 23 was issued prior to the issue of IFRS 15. The requirements of IPSAS 23 were therefore not necessarily developed with reference to similar principles of IFRS 15. The Board concluded these IPSASB Standards do not provide an appropriate basis for financial reporting in the Australian environment, particularly because they require different income recognition depending on whether the transaction is an exchange transaction or a non-exchange transaction, and IPSAS 9 and IPSAS 11 adopt a ‘risks and rewards’ approach that is not consistent with the performance obligation approach in IFRS 15.
- BC69 The Board further noted the IPSASB is currently developing proposals for the accounting of non-exchange expenses. The IPSASB is also developing a related project on revenue, which uses IFRS 15 as a starting point and looks at the type of modifications that would be required for IFRS 15 to be suitable for application to a wide range of revenue transactions in the public sector. This may result in revisions to, or a replacement of, the existing IPSASB revenue recognition requirements. The IPSASB expects to complete these projects in 2019. The Board noted that it would consider undertaking a project to review the guidance to AASB 15 following the completion of these projects.