



Australian Government

Australian Accounting Standards Board

# Proposed changes to income recognition for not-for-profit entities – What do the proposals mean?

Webinar

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# Meet your presenter & facilitator



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# How to ask a question

- Type your question into the “Q&A” box
- Presenter will answer selected questions



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ED 260 structure & objectives

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ED 260 recognition and measurement of income

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ED 260 illustrative examples & guidance

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Non-financial assets at fair value

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Contributions by owners

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## Objectives

- Replace AASB 1004
- Develop NFP application guidance for AASB 15

## Project status

- ED 260 issued in April 2015
- Comment by 14 August 2015

## Next steps

- Outreach to constituents
- AASB re-deliberations
- Standard targeted for issue in H1 2016

## Income of NFP entities (in private or public sectors)



Some donations, grants and appropriations, and taxes, fines etc. (draft AASB 10XX)

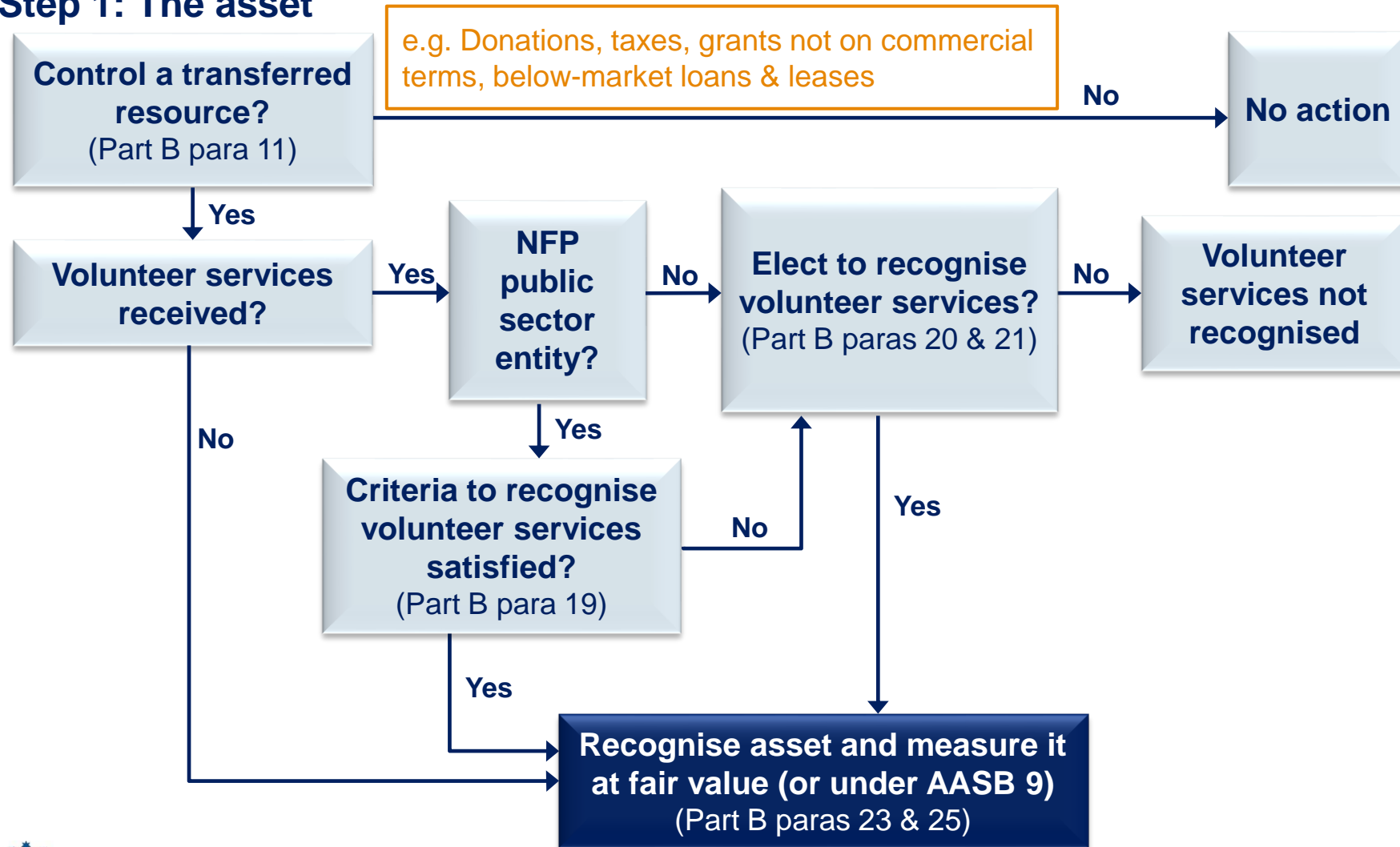
- Income recognised when entity obtains **control** of asset promised or given



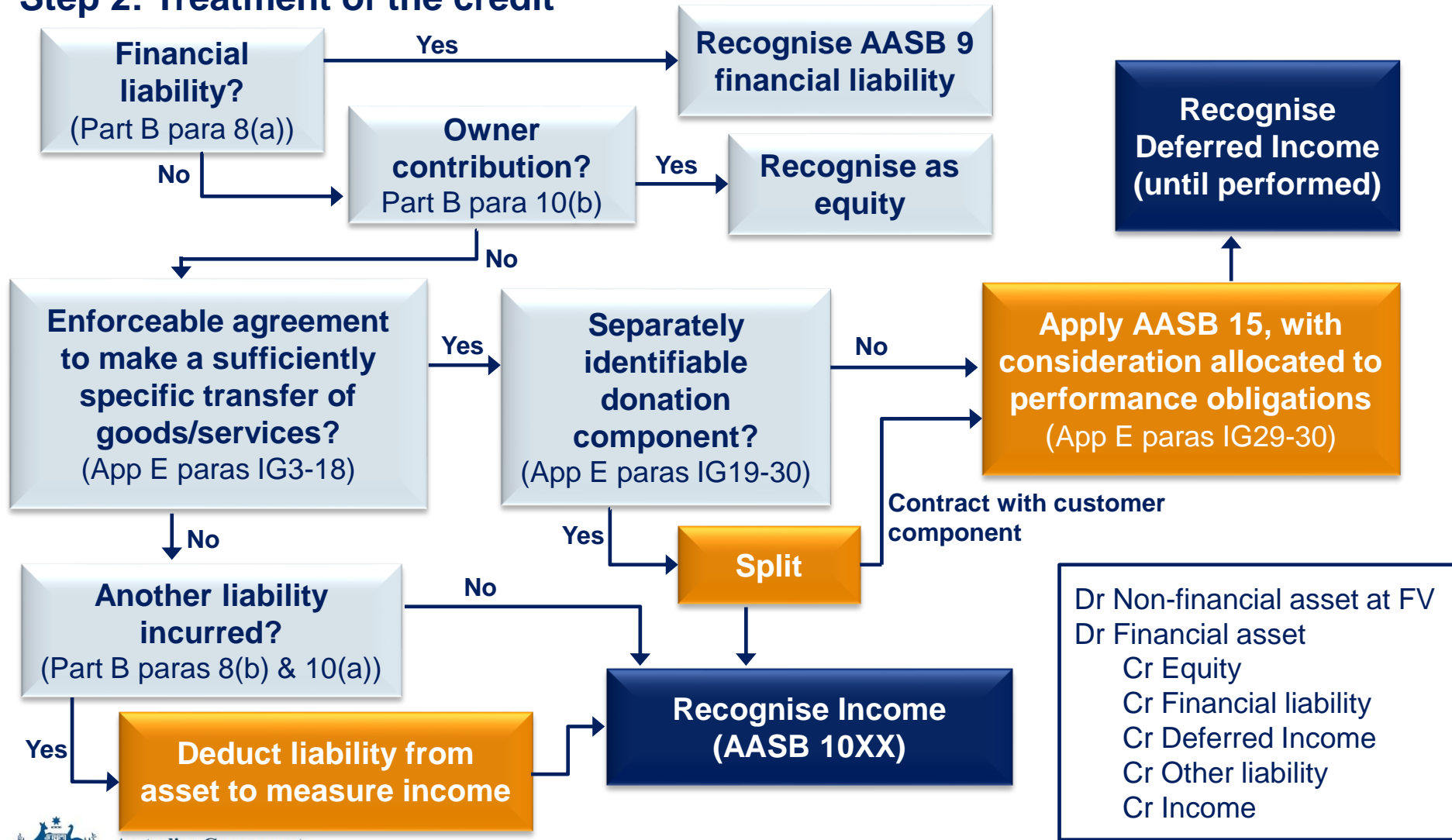
Contracts with customers (amendments to AASB 15)

- Revenue recognised when (or as) entity satisfies a **performance obligation**

## Step 1: The asset



## Step 2: Treatment of the credit





## Core principle of AASB 15

Recognise revenue on transfer of goods or services to a customer at an amount that reflects the amount of consideration **to which the entity expects to be entitled** in exchange for those goods or services

### Steps to apply the core principle



**Proposed Appendix E:  
Not-for-profit clarifications of ‘contract’ and ‘customer’**

## Illustrative examples

### **Example 3: Restrictions on timing of expenditure of refundable grant**

**3A:** charity contracted to provide crisis counselling over specified period

⇒ performance obligation exists, recognise contract liability

**3B:** same specified period, but no specific service

⇒ no performance obligation exists, recognise income immediately

### **Example 5B: Refundable grant between governments for services with targeted specific outcomes**

⇒ performance obligation exists (promise to provide services in pursuit of outcomes), recognise contract liability

## Illustrative examples & guidance

### Examples 7 & 8: Donation components of contracts with customers in fundraising drives

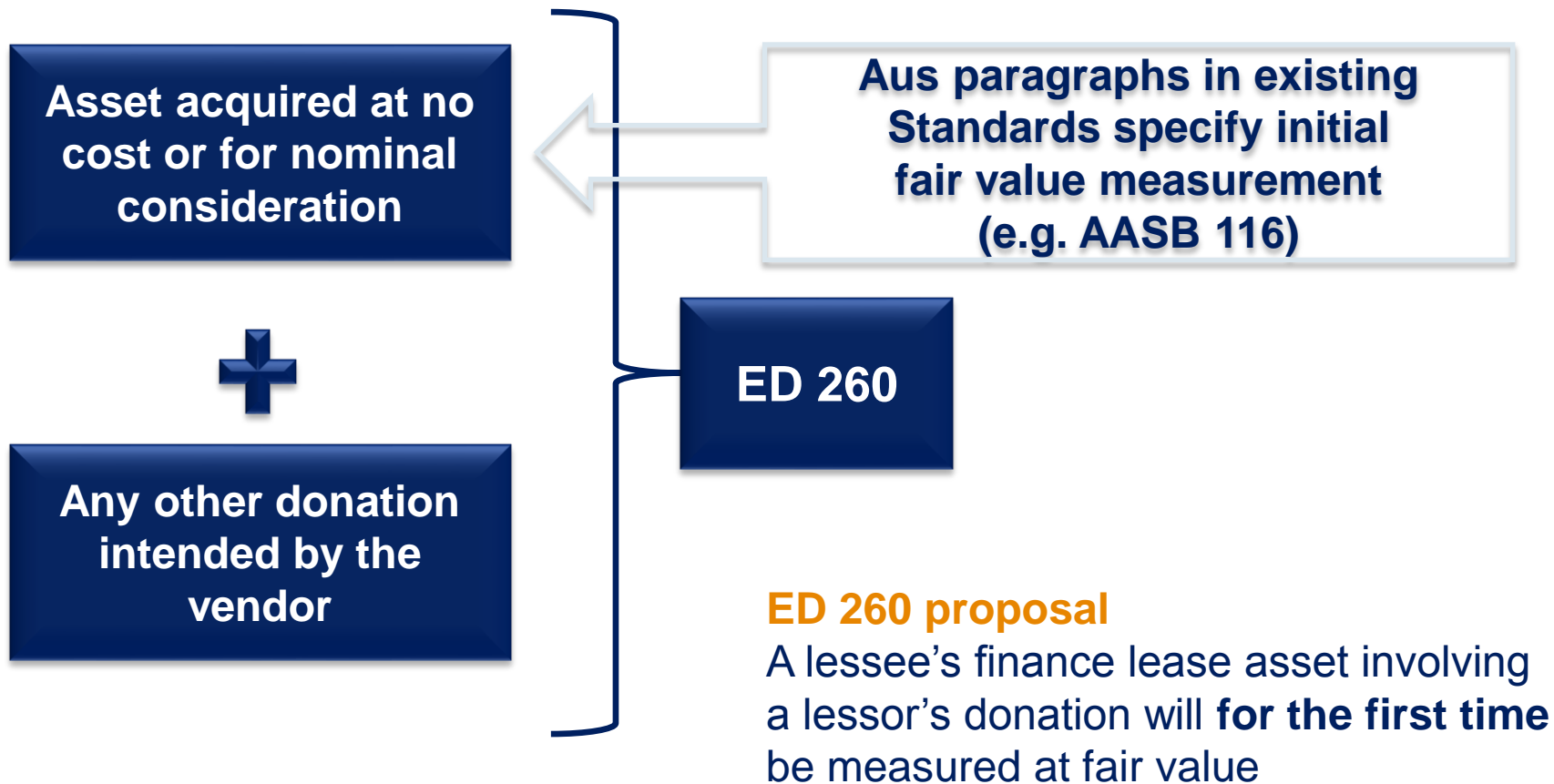
- Is the donation component **refundable** if promised goods/services are not transferred?
- If not, account for donation component separately from the performance obligations (as income when controlled)

### Guidance on when government obtains control of income tax (AG14)

- Control obtained when taxable event occurs
- Taxable event is the end of the taxation period for which taxable income is determined
  - Taxable event is not the generation of assessable income during the taxation period



## Non-financial assets are initially measured at fair value



## Non-financial assets at fair value: Impact on transition

ED 260 proposal: Fully retrospective

Asset acquired at no cost or for nominal consideration

No impact expected

Asset on fair value model

No impact expected

Asset acquired at intentionally less than fair value  
+  
either on cost model,  
or a lease asset

Remeasure opening balance as if initially recognised at fair value

Is this practicable?



## Contributions by owners

- Is a definition required? If so, which?
- Should Interpretation 1038 be withdrawn?

### AASB 1004

Inflows that give rise to a financial interest in the net assets of the entity which:

- a. conveys entitlement both to discretionary distributions during the entity's life and any net distribution on winding up; and/or
- b. can be sold, transferred or redeemed

vs

### IPSASB Framework

Inflows to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity

## What changes does ED 260 propose?

- Remove reciprocal / non-reciprocal distinction
- Instead, assess whether NFP entity has a performance obligation

## What are the implications?

- Less immediate income recognition, **but only if ...**
    - agreement is enforceable
    - promise to provide goods or services is sufficiently specific
- Consider whether promises can be made more explicit**

## Proposed application date:

- Annual periods beginning on or after 1 January 2017
- May be affected by outcome of ED 263

# Questions

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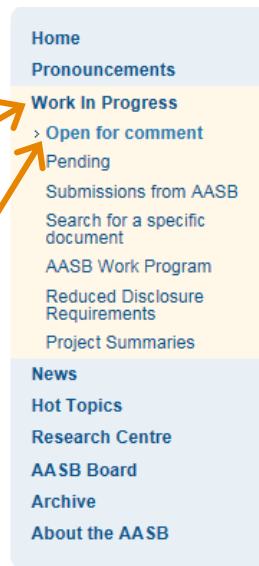
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## Submit comment letters on the AASB website

- Select **Work in Progress**
- Select **Open for comment**
- Select **Submit comments to AASB** below the relevant proposal document to submit a pdf comment letter



> Work In Progress > Open for comment

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### Work in progress - open for comment

Open for comment work-in-progress documents are proposal documents of various types for which the open-for-comment period either has not yet closed or has recently closed. The documents may be Proposed Agenda Decisions, Exposure Drafts, Draft Interpretations, Invitations to Comment or Discussion Papers. The documents retain the "open for comment" status until they are classified by the AASB staff as "pending" instead.

During the open-for-comment period for a document, links are provided to facilitate the provision of e-mail comments to the AASB and to other organisations (if relevant).

Comment letters are to be lodged with the AASB via the "Submit comments to AASB" button. A PDF document must be lodged. The AASB prefers that a Word document also be lodged, for internal use only.

Analyses of Disclosure Requirements relating to Tier 2 proposal documents can be found in the WIP/RDR pages by clicking [here](#).

Clicking on a detailed-view button [+ ] gives links to any related pronouncements (as at the date of issue of the proposal document), submission from the AASB and comment letters to the AASB. Typically, the submission and comment letters will appear on the website only after the proposal document has been classified as "pending".

📄 **Exposure Draft - ED 263 Effective Date of AASB 15 Revenue from Contracts with Customers (Proposed amendments to AASB 15) - May 2015 - Open for comment**  
Download PDF - 184K  
Open for comment to AASB until 19 June 2015 and to IASB until 03 July 2015  
**Submit comments to AASB**  
Direct link



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- Use the **Pronouncements** search tool to identify **Standards** or **Interpretations** applicable to a particular reporting period

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# Thank you

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