

ACCOUNTING STANDARD

AASB 1004

July 2004

Contributions



Australian Government

**Australian Accounting
Standards Board**

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PREFACE

Reasons for Reissuing AASB 1004

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005.

AASB 120 Accounting for Government Grants and Disclosure of Government Assistance applies only to for-profit entities. The AASB considers it would be inappropriate to apply AASB 120 to not-for-profit entities and has issued this Standard as a means of retaining the existing requirements for contributions as they apply to not-for-profit entities.

There are a number of AASB and IASB projects in progress that may change the reporting of contributions in the near future, and the AASB will consider the outcomes of these projects in any revision to the requirements relating to the reporting of contributions by all types of entities. In particular, the AASB issued Exposure Draft ED 125 *Financial Reporting by Local Governments* in October 2003 and proposed that, in relation to accounting for contributions, the concepts of reciprocal and non-reciprocal transfers are not necessary in determining how transfers should be treated and that the concepts of revenue and liability are sufficient. The AASB indicated in ED 125 that the results of its deliberations on revenue recognition may extend beyond local governments. Accordingly, AASB 1004 is expected to be revised as a result of the proposals in, and responses to, ED 125.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2005.

Main Requirements

The Standard:

- (a) applies to contributions to (including liabilities forgiven in relation to) not-for-profit entities;
- (b) requires income to be measured at the fair value of the contributions received or receivable;

- (c) requires income from a contribution to be recognised when an entity obtains control of the contribution or right to receive the contribution, it is probable the economic benefits comprising the contribution will flow to the entity, and the amount can be measured reliably; and
- (d) requires the gross amount of a liability forgiven by a credit provider to be recognised by the borrower as income.

**Differences between this Standard and the Previous
AASB 1004 (revised 1998) and AAS 15 (revised 1998)**

There are no differences in the recognition requirements between this Standard and AASB 1004 and AAS 15 *Revenue*, as they relate to contributions to (including liabilities forgiven in relation to) not-for-profit entities.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

Compliance with IAS 20

Not-for-profit entities that comply with the requirements of AASB 1004 may not simultaneously be in compliance with the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. This is because the recognition criteria in AASB 1004 are different from those in AASB 120.

AASB 1004 requires contributions received or receivable to be recognised immediately as revenue when:

- (a) the entity obtains control of the contribution or the right to receive the contribution;
- (b) it is probable that the economic benefits comprising the contribution will flow to the entity; and
- (c) the amount of the contribution can be measured reliably.

In contrast, AASB 120 requires government grants to be recognised as income on a systematic basis over the periods necessary to match them with the related costs which they are intended to compensate when there is reasonable assurance that:

- (a) the entity will comply with the conditions attaching to them; and
- (b) the grants will be received.

AASB 1004 and IPSASs

International Public Sector Accounting Standards (IPSASs) are issued by the Public Sector Committee of the International Federation of Accountants.

There is no specific IPSAS dealing with contributions at present.

ACCOUNTING STANDARD AASB 1004

The Australian Accounting Standards Board makes Accounting Standard AASB 1004 *Contributions* under section 334 of the *Corporations Act 2001*.

Dated 15 July 2004

D.G. Boymal
Chair – AASB

ACCOUNTING STANDARD AASB 1004

CONTRIBUTIONS

Application

1. **This Standard applies to:**
 - (a) **each not-for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
 - (b) **general purpose financial reports of each other not-for-profit entity that is a reporting entity; and**
 - (c) **financial reports of not-for-profit entities that are, or are held out to be, general purpose financial reports.**
2. **This Standard applies to annual reporting periods beginning on or after 1 January 2005.**
3. **This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.**
4. **The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**
5. **When applied or operative, this Standard supersedes:**
 - (a) **AASB 1004 *Revenue* as notified in the *Commonwealth of Australia Gazette* No S 283, 17 June 1998; and**
 - (b) **AAS 15 *Revenue* as issued in June 1998.**

6. Both AASB 1004 and AAS 15 remain applicable until superseded by this Standard.
7. Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

Measurement of Contributions

8. **Income shall be measured at the fair value of the *contributions* received or receivable.**

Recognition of Contributions of Assets

9. **Income arising from the contribution of an asset to the entity shall be recognised when, and only when, all the following conditions have been satisfied:**
 - (a) **the entity obtains control of the contribution or the right to receive the contribution;**
 - (b) **it is probable that the economic benefits comprising the contribution will flow to the entity; and**
 - (c) **the amount of the contribution can be measured reliably.**
10. A contribution occurs when an entity receives an asset, including the right to receive cash or other forms of asset without directly giving approximately equal value to the other party or parties to the transfer; that is, when there is a *non-reciprocal transfer*. Contributions would, for example, include donated assets. Contributions that are income exclude *contributions by owners*.
11. In some cases it may be difficult to determine whether the entity has control of a contribution or the right to receive a contribution. One such case could be economic benefits expected to be received under a multi-year public policy agreement. The entity does not obtain control of a contribution under such an agreement until it has met conditions or provided services or facilities that make it eligible to receive a contribution. On this basis, under multi-year public policy agreements, income would be recognised only in relation to contributions received or receivable under policy agreements. Another example is where a donor pledges a donation to an entity. If the pledge is not enforceable against the donor, the entity does not control the contribution.
12. In some cases it may be difficult to determine whether the entity is giving approximately equal value to the other parties to a transfer.

This is particularly the case where, for example, fees are charged by a not-for-profit entity for the potential use of a general pool of facilities. In circumstances where clubs and professional associations charge fees in return for contributors being able to enjoy the use of facilities, receive publications or practice in a particular vocation for a defined period, an exchange transaction can be presumed and the fees would not be treated as contributions. The recipient of the fees would have a contractual or constructive obligation to refund some or all fees if it were unable to provide the facilities or services. In circumstances where the benefits to contributors are only nominal, such as acknowledgment letters, general information about the entity's activities and satisfaction of contributors' altruistic goals, the fees are in the nature of contributions.

Liabilities Forgiven

- 13. The gross amount of a liability forgiven by a credit provider shall be recognised by the borrower as income.**
14. Where equity is substituted for a liability, this is not treated as a forgiveness.

Disclosures

- 15. The following information shall be disclosed:**
 - (a) contributions of assets, including cash and non-monetary assets; and**
 - (b) the forgiveness of liabilities.**

APPENDIX

DEFINED TERMS

This appendix is an integral part of AASB 1004.

Contributions	Non-reciprocal transfers to the entity.
Contributions by owners	<p>Future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the entity which:</p> <ul style="list-style-type: none">(a) conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or(b) can be sold, transferred or redeemed.
Non-reciprocal transfer	A transfer in which the entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party or parties to the transfer.