

AASB Exposure Draft

ED 260
April 2015

Income of Not-for-Profit Entities

Comments to the AASB by 14 August 2015



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 14 August 2015.
Comments should be addressed to:

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All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

While comments may be lodged by email or by post, email lodgement is preferred. To enable the submissions to be accessible to all users of the website, including those with disabilities, please submit comments via email in an accessible Word format. An additional accessible and unsecured PDF version may also be submitted.

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ISSN 1030-5882

CONTENTS

PREFACE

PART A [DRAFT] ACCOUNTING STANDARD AASB 2015-X

	<i>Paragraphs</i>
Objective	1
Application	2 – 5
Amendments to AASB 15	6 – 9
Commencement of the legislative instrument	10

PART B [DRAFT] ACCOUNTING STANDARD AASB 10XX

	<i>Paragraphs</i>
Objective	1
Application	2 – 5
Scope	6 – 8
Recognition and measurement	9 – 12
Control of an asset	13 – 16
Recognition	
Probable inflow of future economic benefits	17
Materiality	18
Recognition and measurement of volunteer services	19 – 24
Measurement of an asset on initial recognition	25 – 31
Disclosures	32 – 34
Disaggregation of recognised income, and information about related recognised assets and liabilities	35 – 38
Compliance with parliamentary appropriations and other related authorities for expenditure	39 – 43
Commencement of the legislative instrument	44

Appendices:

A. Defined Terms	<i>Page 30</i>
B. Application Guidance	<i>Page 31</i>
C. Transition	<i>Page 39</i>

D. Amendments to other Australian Accounting Standards	<i>Page 41</i>
E. Australian Implementation Guidance for Not-for-Profit Entities	<i>Page 45</i>
AUSTRALIAN ILLUSTRATIVE EXAMPLES FOR NOT-FOR-PROFIT ENTITIES	<i>Page 54</i>
BASIS FOR CONCLUSIONS ON AASB 10XX	<i>Page 69</i>

[Draft] Australian Accounting Standard AASB 2015-X is set out in Part A paragraphs 1 – 10 and Appendix E. [Draft] Australian Accounting Standard AASB 10XX is set out in Part B paragraphs 1 – 44 and Appendices A – D. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 2015-X and AASB 10XX are to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
- (c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Publicly accountable for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs. Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

Tier 2 requirements comprise the recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian

Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. These requirements do not prevent publicly accountable for-profit private sector entities from complying with IFRSs. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Reasons for Issuing this Exposure Draft

This Exposure Draft proposes requirements for the recognition, measurement and disclosure of income of Australian not-for-profit entities in the public and private sectors (except for income arising from transactions and other events within the scope of other Australian Accounting Standards). It is the result of the AASB's redeliberation of the proposals in AASB ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)* in light of comments received on that ED and the subsequent issue of AASB 15 *Revenue from Contracts with Customers* in December 2014.

This Exposure Draft proposes:

- (a) guidance to assist not-for-profit entities to apply the principles of AASB 15 (see Part A); and
- (b) a replacement of the income recognition requirements in AASB 1004 *Contributions* (see Part B) that would:
 - (i) remove a scope limitation in AASB 1004 on the application of AASB 15 by not-for-profit entities to account for revenue from a contract with a customer. That is, even if a transfer from a customer is 'non-reciprocal', the requirements of AASB 15 would apply (instead of those in AASB 1004); and
 - (ii) not require a not-for-profit entity to determine whether a particular transaction is a 'reciprocal' or 'non-reciprocal'

transfer in order to determine which Standard applies to the transaction (and, consequently, how to account for the transaction) (see paragraphs BC6 and BC15-BC18 of the AASB's Basis for Conclusions).

The proposed replacement of the income recognition requirements in AASB 1004 set out in Part B of this Exposure Draft resulted from a fundamental review of AASB 1004 by the AASB to:

- (a) address concerns expressed by constituents that in many circumstances the requirements of that Standard result in premature recognition of income, particularly when contributions (such as conditional 'non-reciprocal' grants) give rise to obligations to provide specified goods or services; and
- (b) reflect the AASB's view that the requirements of AASB 15 should apply to all contracts with customers entered into by not-for-profit entities, even if some of those contracts might have been regarded as 'non-reciprocal transfers' under AASB 1004.

This Exposure Draft also:

- (a) proposes to omit the disclosure requirement for government departments presently in paragraph 64(e) of AASB 1004, regarding the nature and probable financial effect of any non-compliance with externally-imposed requirements for the period, other than any non-compliance reflected in material variances between amounts appropriated and amounts expended (disclosures about compliance with appropriations would be carried forward in [draft] AASB 10XX); and
- (b) illustrates the possible withdrawal of the requirements for contributions by owners in AASB 1004 (see paragraphs BC83-BC90 of the Basis for Conclusions) and, in turn, the implications for whether to retain the requirements in AASB 1004 regarding:
 - (i) restructures of administrative arrangements (see paragraph BC90(b));
 - (ii) distributions to owners (see paragraphs BC94-BC96); and
 - (iii) liabilities of government departments assumed by other entities (see paragraphs BC97-BC98).

Proposed consequential amendments to not-for-profit-entity-specific requirements of other Standards are set out in Appendix D of [draft] AASB 10XX. The main proposed amendments are:

- (a) expand the current requirements in other Standards to fair value non-financial assets acquired at no cost or for a nominal amount, to require fair valuing non-financial assets acquired in a transaction including a donation by the vendor); and
- (b) require finance leases that include a donation by the lessor to initially be measured at fair value

Proposed Australian Illustrative Examples and a Basis for Conclusions for both Parts of the Exposure Draft accompany the [draft] Standard.

Scope exclusions

The [draft] replacement Standard for AASB 1004 in Part B of this Exposure Draft would not apply to income of not-for-profit entities that is within the scope of other Standards (eg revenue from contracts with customers, income from financial instruments, changes in the value of biological assets and gains on disposal of items of property, plant and equipment would be recognised and disclosed in accordance with other Standards).

For-profit entities

For-profit entities would:

- (a) apply AASB 15 to revenue from contracts from customers, except those contracts (eg leases) explicitly excluded from the scope of AASB 15; and
- (b) continue to apply AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

Other income of for-profit entities that is outside the scope of AASB 15 and AASB 120 would continue to be accounted for in accordance with other Standards specifically applying to the transactions or events. Where a Standard does not specifically apply, the for-profit entity would adopt an appropriate accounting policy in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (including having regard to [draft] AASB 10XX).

Main Features of this Exposure Draft

Revenue from contracts with customers

This Exposure Draft proposes that the timing of revenue recognition by a not-for-profit entity in relation to a transaction should be based on whether:

- (a) the transaction occurs in a contract (that is, an agreement with another party that creates enforceable rights and obligations); and, if so,
- (b) whether the contract includes performance obligations (which are promises by the entity to transfer goods or services to the customer).

When (a) and (b) above are met, the not-for-profit entity would apply AASB 15. Under that Standard, the entity would recognise revenue when (or as) it satisfies each performance obligation by transferring a promised good or service to the customer (which occurs when the customer obtains control of that good or service).

Under AASB 15, the amount of revenue recognised when a performance obligation is satisfied is the transaction price (that is, the amount of consideration from the customer to which the entity expects to be entitled in exchange for transferring the promised good or service to the customer). When consideration from a customer is recognised as an asset in advance of satisfying the related performance obligation, the amount of that consideration is recognised as a contract liability.

Australian Implementation Guidance

Proposed Appendix E of AASB 15 includes Australian Implementation Guidance that would, for not-for-profit entities, complement AASB 15 as issued in December 2014. It includes proposed:

- (a) clarification in a not-for-profit entity context of some terminology in AASB 15;
- (b) guidance in a not-for-profit entity context on when an agreement with another party creates enforceable rights and obligations; and
- (c) guidance in a not-for-profit entity context on when a promise to transfer a good or a service is specified in sufficient detail to be able to determine when the obligation is satisfied.

If a not-for-profit entity promises to transfer a good or service to another party, but not as part of an agreement that creates enforceable rights and obligations, or if the promise is not stipulated in sufficient detail to be able to determine when the obligation is satisfied, the promise would not be accounted for as a performance obligation. Consequently, any inflow of assets related to that promise would not give rise to revenue from a contract with a customer. However, such an inflow would be accounted for in accordance with [draft] AASB 10XX *Income of Not-for-Profit Entities* [see Part B of this Exposure Draft] either as other income, a liability (eg a refund liability) or a contribution by owners. The proposed requirements of [draft] AASB 10XX are mentioned briefly further below.

Separately identifiable donation component of a contract with a customer

Some customers of not-for-profit entities enter contracts with the dual purposes of obtaining goods or services and donating assets to help the not-for-profit entity achieve its benevolent objectives. A donation component of a contract with a customer is an amount of consideration that is not attributable to the goods or services promised by the entity to its customer.

The proposed Australian Implementation Guidance would require an identifiable donation component of a contract with a customer to be accounted for separately from the revenue from transferring promised goods or services to the customer, and excluded from the scope of AASB 15. Instead, the identifiable donation component would be accounted for in accordance with [draft] AASB 10XX and recognised as donation income (unless it is a contribution by owners) as at the date the entity recognises the inflow(s) of asset(s) embodying the donation component.

Income outside the scope of other specific Australian Accounting Standards

Part B of this Exposure Draft sets out proposed recognition, measurement and disclosure requirements for income of not-for-profit entities that is within the scope of [draft] AASB 10XX (see ‘Scope exclusions’ above).

Such income would arise when the not-for-profit entity recognises an inflow of an asset initially measured at an amount exceeding the initial carrying amount of any resulting liability to that entity (including a contract liability to a customer), provided that the inflow is not a contribution by owners. Recognition of the inflow would generally occur when the not-for-profit entity obtains control of the promised or transferred asset.

Examples of transactions and other events that are within the scope of [draft] AASB 10XX include, but are not limited to, the following:

- (a) voluntary transfers, such as:
 - (i) donations, including identifiable donation components of contracts with customers (see AASB 15);
 - (ii) transactions with donation elements, for example where the fair value of that asset significantly exceeds the consideration paid or payable in return;
 - (iii) grants; and

- (iv) appropriations to government departments and agencies; and
- (b) compulsory transfers such as taxes, rates and fines.

Part B also includes a proposal that the requirements and guidance in AASB 1004 on the recognition of volunteer services as assets and income should be carried forward virtually unamended.

Appendix B to [draft] AASB 10XX includes proposed Australian Application Guidance on accounting for transactions that do not occur in contracts with customers and commonly occur in the not-for-profit sector (for example, donations, taxes and fines, and taxes and other transfers giving rise to refund liabilities).

Application Date

It is proposed that the Australian Implementation Guidance for not-for-profit entities in relation to AASB 15 and [draft] AASB 10XX would both be applicable to annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

GAAP/GFS Implications

The Australian Bureau of Statistics (ABS) is in the process of revising its Government Finance Statistics (GFS) Manual. The ABS expects to issue its revised GFS Manual before the proposed effective date of the proposals in this Exposure Draft (annual reporting periods beginning on or after 1 January 2017). The ABS intends to base its revised GFS Manual on the revised International Monetary Fund (IMF) GFS Manual, which has yet to be published.¹ Accordingly, the GAAP/GFS harmonisation implications of the proposals in this Exposure Draft are based on a comparison of those proposals with the pre-publication draft of the revised IMF GFS Manual (Draft IMF Manual) issued in March 2014. Those GAAP/GFS harmonisation implications are noted below. None of them suggest a fundamental GAAP/GFS difference would arise.

The Draft IMF Manual states that, if governments receive cash amounts before having an unconditional claim on them (such as when they receive advances for the future provision of goods and services, and grants for the construction of fixed assets over several periods), these cash receipts cannot be recognised as revenue until the government acquires the unconditional claim on the amount. In contrast, under the [draft] Standard, an entity would recognise revenue (or other income) immediately if it receives cash amounts

¹ The ABS intends differing from the revised IMF GFS Manual in some respects, but these intended differences relate to issues outside the scope of this Exposure Draft.

that are subject to conditions but those conditions are not sufficiently specific to be identified as performance obligations. Therefore, under the [draft] Standard, transfers may be recognised as revenue (or other income) immediately in some circumstances without the entity having an unconditional claim on the transferred asset (for example, conditions may apply to *when* cash amounts received are to be spent, without applying to *how* those amounts are to be spent).

The Draft IMF Manual states that the amount of tax revenue recognised by a taxing entity excludes ‘uncollectable taxes’, which include amounts assessed but deemed uncollectable due to non-compliance with tax laws or insolvency of taxpayers. In contrast, under the [draft] Standard:

- (a) tax revenue would include amounts to which the taxing entity expects to be entitled as a result of a taxable event occurring; and
- (b) amounts of tax estimated to be uncollectible are treated as expenses, rather than (as the Draft IMF Manual would require) as reductions in tax revenue.

The term ‘transfers’ in the Draft IMF Manual has a different meaning in Australian Accounting Standards. This difference in meaning should not cause GAAP/GFS harmonisation differences, and is noted here for clarification. Specifically, in the Draft IMF Manual, ‘transfers’ refer to non-exchange transactions. This [draft] Standard does not distinguish ‘exchange’ and ‘non-exchange’ transactions, and refers to transfers in relation to transfers of goods or services to customers, in addition to voluntary and compulsory transfers to the entity that are not contracts with customers.

The GAAP/GFS Implications of the proposals in this Exposure Draft are the subject of Question 10 in the Specific Matters for Comment.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 14 August 2015. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Specific Matters for Comment

The AASB would particularly value comments on the following:

- 1 In relation to the AASB's proposal to replace the reciprocal / non-reciprocal transfer distinction in AASB 1004 with income recognition requirements based on whether a not-for-profit entity needs to satisfy a performance obligation:
 - (a) do you agree that this proposal would provide a faithful depiction of a not-for-profit entity's financial performance?
 - (b) if not, what alternative approach to income recognition would you recommend for not-for-profit entities? Please provide your reasons.
- 2 In relation to the AASB's proposal that, to qualify as a performance obligation, a not-for-profit entity's promise to transfer a good or service to a counterparty in a contract must be 'sufficiently specific' to be able to determine when the obligation is satisfied (see paragraph IG13 of Part A):
 - (a) do you agree with this proposal?
 - (b) if not, what factors or criteria should apply to determine whether a not-for-profit entity has a performance obligation? Please provide your reasons.
- 3 Do you agree with the proposal in paragraphs IG19-IG30 of Part A that a not-for-profit entity would recognise a donation component in a contract with a customer as immediate income only if:
 - (a) a qualitative assessment of available evidence indicates that the customer intended to make a donation to the not-for-profit entity; and
 - (b) the donation component is separately identifiable from the goods or services promised in the contract? (See also paragraphs BC36-BC49 of the Basis for Conclusions.)

If not, under what circumstances should a not-for-profit entity identify and account separately for a donation that is provided as part of a contract with a customer?

- 4 In relation to the AASB's proposals to:
- (a) permit any not-for-profit entity to recognise volunteer services as income if the fair value of those services can be measured reliably; and
 - (b) carry forward the requirement in paragraph 44 of AASB 1004 that particular public sector entities must recognise volunteer services if those services would also have been purchased if they had not been donated,

the AASB seeks views on:

- (a) whether the requirements (if any) for the recognition of volunteer services should be the same for all not-for-profit entities, regardless of whether they operate in the public or private sector; and
- (b) if your answer to (a) is 'yes', whether the recognition of volunteer services should be:
 - (i) optional, provided that the fair value of those services can be measured reliably; or
 - (ii) required if those services would also have been purchased if they had not been donated.

(See also paragraphs BC59-BC63 of the Basis for Conclusions.)

- 5 Do you agree with the proposal in paragraph 38 of [draft] AASB 10XX that, when inventories are donated to a not-for-profit entity other than as part of a contract with a customer, assessments of whether the donations are material should be made on an individual transaction basis without reassessment at a portfolio or other aggregate level? (See also paragraphs BC50-BC51 of the Basis for Conclusions.)
- 6 Australian Accounting Standards applicable to for-profit entities do not include a definition of 'contributions by owners'. Further, concerns have been expressed by some that the definition of 'contributions by owners' in AASB 1004 is too narrow. Do you consider that a definition of 'contributions by owners' is still necessary, or appropriate, in Australian Accounting Standards? If so, would you prefer using:
- (a) the definition of 'contributions by owners' presently in AASB 1004; or

- (b) the definition of ‘ownership contributions’ in the Public Sector Conceptual Framework issued by the International Public Sector Accounting Standards Board (IPSASB)? (See also paragraphs BC84-BC91 of the Basis for Conclusions.)

7 The AASB also seeks views on the following issues related to contributions by owners:

- (a) whether, in view of concerns expressed by some that using AASB 1004’s definition of ‘contributions by owners’ in AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* (which includes for-profit public sector entities in its scope) might prevent a for-profit entity in the public sector from making an unreserved statement of compliance with IFRSs, AASB Interpretation 1038 should be:
 - (i) withdrawn;
 - (ii) retained but with narrower application [that is, limited to not-for-profit entities in the public sector, and possibly also confined to identifying which not-for-profit public sector entities should account for transfers between them when they are controlled by the same parent (government)]; or
 - (iii) retained without amendment? (See also paragraphs BC84-BC94 of the Basis for Conclusions.)
- (b) whether requirements for restructures of administrative arrangements (presently set out as paragraphs 54-59 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraph BC90(b) of the Basis for Conclusions);
- (c) whether requirements for distributions to owners (presently set out as paragraphs 49 and 53 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraphs BC94-BC96 of the Basis for Conclusions);
- (d) whether requirements for liabilities of government departments assumed by other entities (presently set out as paragraphs 39-43 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraphs BC97-BC98 of the Basis for Conclusions); and
- (e) the practical implications if the definition of ‘contributions by owners’ and AASB Interpretation 1038 were to be withdrawn?

- 8 In relation to disclosure requirements regarding compliance by government departments with appropriations, do you agree with:
- (a) omitting the requirement in paragraph 64(e) of AASB 1004 to disclose the nature and probable financial effect of any non-compliance by the government department with externally-imposed requirements for the period, other than any non-compliance reflected in material variances between amounts appropriated and amounts expended? (See paragraphs BC99-BC103 of the Basis for Conclusions.)
 - (b) extending the scope of the retained disclosure requirements for government departments (ie those regarding any non-compliance reflected in material variances between amounts appropriated and amounts expended) to also apply to any other public sector entities that obtain part or all of their spending authority from parliamentary appropriations? (See also paragraphs BC99-BC103 of the Basis for Conclusions.)
- 9 Do you agree with the proposed transitional provisions in Appendix C of [draft] AASB 10XX? In particular:
- (a) do you agree with the transitional provisions for non-financial assets and finance lease assets and liabilities, the cost of which was not measured at fair value on initial recognition; and
 - (b) do any other issues warrant additional transitional provisions and, if so, which transitional provisions do you suggest? (See also paragraphs BC104-BC109 of the Basis for Conclusions.)

General matters for comment

The AASB would also particularly value comments on the following:

- 10 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
- (a) not-for-profit entities; and
 - (b) public sector entities, including GAAP/GFS implications (discussed above).
- 11 Whether, overall, the proposals would result in financial statements that would be useful to users.

- 12 Whether the proposals are in the best interests of the Australian economy.
- 13 Unless already provided in response to specific matters for comment 1 – 9 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

PART A OF ED 260
ACCOUNTING STANDARD AASB 2015-X
***REVENUE FROM CONTRACTS WITH
CUSTOMERS – AUSTRALIAN
IMPLEMENTATION GUIDANCE FOR
NOT-FOR-PROFIT ENTITIES***

Objective

- 1 The objective of this Standard is to add authoritative implementation guidance to AASB 15 *Revenue from Contracts with Customers* for application by Australian not-for-profit entities in the private and public sectors.

Application

- 2 This Standard applies to:
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;
 - (b) general purpose financial statements of each other reporting entity; and
 - (c) financial statements that are, or are held out to be, general purpose financial statements.
- 3 This Standard applies to annual reporting periods beginning on or after 1 January 2017.
- 4 This Standard may be applied to annual reporting periods beginning before 1 January 2017, provided that AASB 15 is also applied to the same period. If an entity applies this Standard to such an annual reporting period, it shall disclose that fact.
- 5 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.

Amendments to AASB 15

- 6 Paragraph Aus4.4A is added as follows:

Aus4.4A Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* explains and illustrates the principles in the Standard from the perspective of Australian not-for-profit entities in the private and public sectors, particularly in circumstances where the for-profit perspective reflected in the Standard does not readily translate to a not-for-profit perspective.
- 7 Paragraph Aus5.1 is added as follows:

Aus5.1 Guidance on whether a not-for-profit entity's contract with a customer includes a separately identifiable donation component is provided in Appendix E of this Standard.
- 8 Paragraph Aus7.1 is added as follows:

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 [draft] AASB 10XX *Income of Not-for-Profit Entities* (see paragraph Aus5.1).
- 9 Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* is added as set out below (see pages 31–40):

Commencement of the Legislative Instrument

- 10 **For legal purposes, this legislative instrument commences on 31 December 2016.**

PART B OF ED 260
ACCOUNTING STANDARD AASB 10XX
INCOME OF NOT-FOR-PROFIT ENTITIES

Objective

- 1 The objective of this [draft] Standard is to establish the principles that a not-for-profit entity shall apply to report useful information to users of financial statements about the nature and amount of assets, liabilities, income and cash flows arising from inflows (or net inflows) of resources from donations, grants, *taxes* and similar transactions and other similar events.

Application

- 2 This [draft] 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 2001* and that is a reporting entity;
 - (b) general purpose financial statements of each other not-for-profit entity that is a reporting entity; and
 - (c) financial statements of not-for-profit entities that are, or are held out to be, general purpose financial statements.
- 3 This [draft] Standard applies to annual reporting periods beginning on or after 1 January 2017.
- 4 This [draft] Standard may be applied to annual reporting periods beginning before 1 January 2017, provided that AASB 15 *Revenue from Contracts with Customers* is also applied to the same period. If an entity applies this [draft] Standard to such an annual reporting period, it shall disclose that fact.
- 5 When applied or operative, this [draft] Standard supersedes AASB 1004 *Contributions*.

Scope

- 6 **A not-for-profit entity shall apply this [draft] Standard to an inflow of a resource (or a net inflow of resources) from each donation, grant, tax or similar transaction or other similar event.**
- 7 Examples of transactions and other events that are within the scope of this [draft] Standard include, but are not limited to, the following:
- (a) voluntary transfers, such as:
 - (i) donations, including identifiable donation components of contracts with customers (see AASB 15 Appendix E IG 19-21);
 - (ii) transactions with donation elements, for example where the fair value of that asset significantly exceeds the consideration paid or payable in return;
 - (iii) grants; and
 - (iv) appropriations to government departments and agencies; and
 - (b) compulsory transfers such as taxes, rates and *fin*es.
- 8 This [draft] Standard sets out the requirements for recognising income from transactions or events that are not within the scope of other Australian Accounting Standards. For example:
- (a) transactions with donation elements may be within scope of another applicable Australian Accounting Standard, including:
 - (i) AASB 15, which applies to revenue from contracts with customers arising from enforceable agreements with sufficiently specific promises to provide goods or services;
 - (ii) AASB 9 *Financial Instruments*, which applies, for example to any gain arising from a borrowing by an entity on below-market terms or a forgiveness of a debt owed by an entity; and
 - (b) other transactions, including:

- (i) AASB 141 *Agriculture*, which applies to gains from increases in fair value less costs to sell of biological assets;
- (ii) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, which applies to gains from settling a provision for a lesser amount than the estimated cost reflected in the carrying amount of the derecognised provision.

Recognition and measurement

9 For the purposes of this [draft] Standard, an inflow of a resource (or a net inflow of resources) may involve:

- (a) a contribution of a resource (such as cash or another financial instrument, a good or a service); or
- (b) a net contribution of a resource, whereby the entity obtains a resource and also incurs a related liability, the initial carrying amount of which is less than the resource's initial carrying amount.

10 When an entity recognises an inflow of a resource that meets the asset recognition criteria in paragraph 11, it shall recognise income to the extent that the initial carrying amount of that asset exceeds the sum of:

- (a) **the initial carrying amount of the related liability (or liabilities), if any, that the entity incurs; and**
- (b) **any related contribution by an owner acting in its capacity as an owner.**

The asset's initial carrying amount shall be determined in accordance with paragraphs 25-31 and any measurement requirements relating to transaction costs in another applicable Australian Accounting Standard.

11 When an entity obtains control of a resource, except for a volunteer service (see paragraphs 19-24), the resource shall be recognised as an asset if:

- (a) **it is probable that the future economic benefits associated with the asset will flow to the entity; and**

(b) the fair value of the asset can be measured reliably.

- 12 Liabilities referred to in paragraph 10(a) include:
- (a) those recognised or measured in accordance with another Australian Accounting Standard, for example:
 - (i) AASB 15, for a contract liability to a customer arising from a performance obligation;
 - (ii) AASB 9, for a financial liability; or
 - (iii) AASB 137, for a provision; and
 - (b) refund liabilities outside the scope of AASB 15 and AASB 9 (see paragraphs AG30-AG34).

Control of an asset

- 13 Control of an asset arises when the entity can direct the use of, and obtain substantially all of the remaining benefits from, the asset. Paragraph 33 of AASB 15 provides guidance on the benefits that can be obtained from an asset.
- 14 The ability to deny or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example financial institutions. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government that regulates those activities.
- 15 Transactions expected to occur in the future do not in themselves give rise to assets – hence, for example, an intention to levy a tax does not give rise to an asset in the form of a present right against a taxpayer.
- 16 Application Guidance on when a not-for-profit entity obtains control of particular types of transferred assets, and on some related recognition and measurement considerations, is set out in Appendix B.

Recognition

Probable inflow of future economic benefits

- 17 In relation to paragraph 11(a), an inflow of future economic benefits is probable when the inflow is more likely than not to occur. The entity bases this determination on its experience, if any, with similar types of inflows of assets and its expectations regarding the transferor (including a taxpayer). For example, where a government agrees to transfer funds to a not-for-profit entity, and the agreement is enforceable, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date. It would be more evident that it is probable that the inflow will occur if the government has a history of transferring agreed assets. However, this is not a pre-requisite for a probable inflow.

Materiality

- 18 Assessing whether an inflow of assets (such as a donation) is material should be made on the basis of an individual transaction or other event without reassessment at an aggregate or portfolio level.

Recognition and measurement of volunteer services

- 19 **Local governments, government departments, general government sectors (GGSs) and whole of governments shall recognise volunteer services as income if:**
- (a) **the fair value of those services can be measured reliably; and**
 - (b) **the services would have been purchased if they had not been donated.**
- 20 Any public sector not-for-profit entity referred to in paragraph 19 may elect to recognise volunteer services as income if the services would not have been purchased if they had not been donated, provided that the fair value of those volunteer services can be measured reliably.
- 21 Any other not-for-profit entity may elect to recognise volunteer services, or a class of volunteer services, as income and a corresponding asset or expense if the fair value of those services can be measured reliably.
- 22 Consistent with paragraphs 20-21, the criterion in paragraph 19(b) need not be met for any not-for-profit entity to elect to recognise volunteer services.

23 Recognised volunteer services are measured at their fair value.

24 In some circumstances, volunteer services provided to a not-for-profit entity might meet the definition of assets, but the fair value of those services might not be able to be measured reliably, and therefore fail to satisfy the criteria for recognition as an asset (and, consequently, as income). Some volunteer services, such as professional services, might have readily observable market prices – in such circumstances, obtaining a reliable measure of fair value would be possible. For such services, if received by an entity referred to in paragraph 19, their recognition would be required if the entity would have purchased them if they had not been donated. Entities referred to in paragraph 19 are not required to perform an exhaustive search for volunteer services that might meet the recognition criteria in that paragraph. Volunteer services that would have been purchased if they were not donated should be readily identifiable from the entity's operational requirements.

Measurement of an asset on initial recognition

25 An asset recognised in accordance with paragraph 11 shall initially be measured as follows:

(a) if within the scope of AASB 9, in accordance with the requirements of that Standard; and

(b) otherwise at fair value as at the date of acquisition. The asset's fair value shall be determined in accordance with AASB 13 *Fair Value Measurement*.

26 An asset measured at fair value on initial recognition in accordance with paragraph 25(b) would subsequently be measured in accordance with the measurement requirements of any other Australian Accounting Standard (eg AASB 116 *Property, Plant and Equipment*) applicable to that asset.

27 An asset (eg an item of property, plant and equipment) may be donated to an entity, or may be acquired compulsorily by an entity through the exercise of its powers of sequestration or other powers to tax. This [draft] Standard requires an entity to use the same measurement basis to initially measure an asset acquired through a transaction that includes a donation or through levying a tax.

28 In assessing whether an acquisition of an asset (including a lease asset under a finance lease) includes a donation, the consideration paid or payable for the asset would be presumed to represent fair value, unless facts and circumstances indicate the vendor or lessor intended to make

a donation when selling the asset or entering the lease. Examples of where a vendor or lessor intended to make a donation are:

- (a) an entity is sold land by a local government at a reduced price because of the entity's benevolent objectives, and this concession is identified in correspondence or in the minutes of a meeting of the local government's council; and
- (b) an asset is sold or leased to an entity either without that entity paying consideration in return or where the fair value of that asset significantly exceeds the consideration paid or payable in return.

- 29 Consequently, an entity would be required to estimate the fair value of an asset on initial recognition only when there are indications that the consideration paid or payable was intentionally less than fair value.
- 30 Acquisitions of assets from vendors or lessors on commercial terms, including those where vendors make distress sales or provide trade discounts, do not include a donation.
- 31 In applying paragraph 25 to establish the initial carrying amount of an item of inventory donated to an entity other than as part of a contract with a customer, and consequently to recognise the donation, an assessment of whether the donation is material should be made on an individual transaction basis without reassessment at a portfolio or other aggregate level.

Disclosures

- 32 **The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature and amount of assets, liabilities, income and cash flows arising from transactions and other events within the scope of this Standard.**
- 33 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.
- 34 An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

Disaggregation of recognised income, and information about related recognised assets and liabilities

- 35 An entity shall disaggregate recognised income into categories that depict how the nature and amount of income and cash flows are affected by economic factors. The following are examples of types of categories of recognised income that may be appropriate to disclose:
- (a) compulsory transfers, such as taxes, rates and fines; and
 - (b) voluntary transfers, such as:
 - (i) grants, bequests and donations of cash, other financial assets and goods;
 - (ii) volunteer services; and
 - (iii) for government departments and agencies, amounts drawn down under appropriations that are recognised as income.
- 36 Other recognised amounts that may be appropriate for an entity to disclose separately include the following, shown either in the statement of financial position or the statement of profit or loss and other comprehensive income, or in the notes:
- (a) the amount of a receivable that is not a financial asset as defined in AASB 132 *Financial Instruments: Presentation* (eg income tax receivable from a taxpayer: see paragraph 39);
 - (b) the amount of any interest income recognised in relation to that receivable during the period;
 - (c) the amount of any impairment losses recognised in relation to that receivable during the period; and
 - (d) the amounts of any recognised refund liabilities and, if those refund liabilities relate to taxes or rates for which the taxable event has yet to occur, the future period(s) to which those liabilities relate.
- 37 Other information that may be appropriate for an entity to disclose in the notes includes, for each class of taxation income that the entity cannot measure reliably during the period in which the taxable event occurs (see paragraphs AG21-AG23):
- (a) information about the nature of the tax;

- (b) the reason(s) why that income cannot be measured reliably; and
- (c) when that uncertainty might be resolved.

38 An example of receivables that are not financial assets [see paragraph 36(a)] are amounts of income tax receivable from taxpayers because those receivables are created as a result of statutory requirements rather than contractual requirements.

Compliance with parliamentary appropriations and other related authorities for expenditure

39 Paragraphs 40 to 43 apply only to government departments and other public sector entities that obtain part or all of their spending authority for the period from a parliamentary appropriation. The amounts disclosed in accordance with paragraphs 41-44 include any amounts appropriated in respect of which the entity recognises revenue or other income in accordance with another Australian Accounting Standard (eg AASB 15).

40 The entity shall disclose separately in respect of the period:

- (a) a summary of the recurrent, capital or other major categories of amounts authorised for expenditure (including parliamentary appropriations), disclosing separately:**
 - (i) the original amounts appropriated; and**
 - (ii) the total of any supplementary amounts appropriated and amounts authorised other than by way of appropriation (eg by the Treasurer, other Minister or other legislative authority);**
- (b) the expenditures in respect of each of the items disclosed in (a) above; and**
- (c) the reasons for any material variances between the amounts appropriated or otherwise authorised and the associated expenditures, and any financial consequences for the entity of an unauthorised expenditure.**

41 The information disclosed about compliance with limits on expenditures created by appropriations and any other authorities for expenditure during the period shall be in a form that is relevant to users of that information, and that reflects the following:

- (a) the operating characteristics of the government department or other public sector entity;
 - (b) the structure of the appropriations; and
 - (c) the general purpose nature of the financial statements.
- 42 For the purposes of resource allocation decisions, including assessments of accountability, this Standard requires that users of financial statements of government departments and other public sector entities that obtain part or all of their spending authority for the period from a parliamentary appropriation be provided with information about the amounts appropriated or otherwise authorised for the entity's use, and whether the entity's expenditures were as authorised. When spending limits imposed by parliamentary appropriation or other authorisation have not been complied with, information regarding the amount of, and reasons for, the non-compliance is relevant for assessing the performance of management, the likely consequences of non-compliance, and the ability of the entity to continue to provide services at a similar or different level in the future.
- 43 Broad summaries of the major categories of appropriations and associated expenditures, rather than detailed reporting of appropriations for each activity or output, is sufficient for most users of such an entity's financial statements. Determining the level of detail and the structure of the summarised information is a matter of judgement. If detailed information about compliance with spending mandates is required by certain users, it should be provided in special purpose financial statements.

Commencement of the Legislative Instrument

- 44 **For legal purposes, this legislative instrument commences on 31 December 2016.**

APPENDIX A

DEFINED TERMS

This appendix is an integral part of the [draft] Standard.

fin	Economic benefits received or receivable by an entity, as determined by a court or other law enforcement body, as a consequence of a breach of a law or regulation. Fines exclude penalties imposed by tax authorities.
payable tax credits	Tax credits that are not limited to the amount of a taxpayer's tax liability for the period, because they are available to beneficiaries regardless of whether they pay taxes.
tax relief	Preferential provisions of the tax law that provide particular taxpayers with concessions that are not available to others. Tax relief excludes 'payable tax credits'.
taxable event	The event that the government, legislature or other authority has determined will be subject to taxation.
taxes	Economic benefits compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide income to the government. Taxes exclude fines or other penalties imposed for breaches of the law, except for penalties imposed by tax authorities.

APPENDIX B

APPLICATION GUIDANCE

This appendix is an integral part of the [draft] Standard. It has the same authority as the other parts of the [draft] Standard.

AG1 This application guidance is organised into the following categories:

- (a) Voluntary transfers (paragraphs AG2-AG12), including:
 - (i) control of voluntary transfers (paragraphs AG4-AG7);
 - (ii) bequests (paragraphs AG8-AG9); and
 - (iii) volunteer services (paragraphs AG10-AG12); and
- (b) Compulsory transfers (paragraphs AG13-AG34), including:
 - (i) control of compulsory transfers (paragraphs AG13-AG15);
 - (ii) classification (paragraphs AG16-AG17);
 - (iii) measurement and recognition of taxation income (paragraphs AG18-AG25); and
 - (iv) fines (paragraphs AG26-AG29).

Voluntary transfers

AG2 Voluntary transfers include grants, appropriations, debt forgiveness, bequests and donations (including donated goods and volunteer services). Government appropriations establish the authority to expend money for particular purposes. Transfers of amounts appropriated are voluntary in the sense that the government is not compelled to make particular payments of amounts appropriated.

AG3 Donations are voluntary transfers of assets including cash or other monetary assets, donated goods and volunteer services that one entity (for example, a person) makes to another entity. Donations are normally free from specifications. A gift is a form of donation. However, a donation might be promised by a customer in a contract in which the customer also promises consideration in exchange for goods or services promised by the entity (see AASB 15).

Control of voluntary transfers

- AG4 In many cases, an entity obtains control of a donation or other voluntary transfer when it receives the good or service. A voluntary transfer is controlled prior to receipt of the good or service if the promise of the transfer is legally enforceable.
- AG5 In some cases (such as some multi-year public policy agreements between a government and another level of government or a government department, other than contracts with customers) an entity's right against a transferor would be legally enforceable when:
- (a) the transferor promises to make the transfer (for example, a promised transfer of assets to the entity may be legally enforceable because the entity is entitled to rely on the promise and would suffer loss if the promise were not honoured); or
 - (b) the entity satisfies eligibility criteria for the transfer (such as expending funds or incurring liabilities, in relation to reimbursement transfers).
- AG6 An entity reviews multi-year agreements at each reporting date to assess whether it has obtained control of part or all of the promised assets remaining at the beginning of the period. In some multi-year agreements, an entity may obtain control of the entire amount of promised assets upon entering into the agreement. In other multi-year agreements, an entity may obtain control of a portion of the promised assets in each year of the agreement.
- AG7 The nature of parliamentary appropriations that do not give rise to performance obligations in contracts with customers, and the circumstances that give rise to a government department's or agency's control of such appropriations, can vary across different jurisdictions in Australia, and may vary for different types of appropriations within a particular jurisdiction.

Bequests

- AG8 A bequest is a transfer made according to the provisions of a deceased person's Last Will and Testament (Will). Bequeathed items are recognised as assets when:
- (a) the entity has obtained a present legal right to, and therefore control of, the bequeathed items. This occurs when probate has been granted and, depending on the facts and circumstances, either the period for challenging the Will has

expired or the Will has been challenged and it is legally determined that the entity is entitled to particular assets or amounts;

- (b) it is probable that the future economic benefits will flow to the entity; and
- (c) the fair value of the assets can be measured reliably.

AG9 Assessing the probability of an inflow of future economic benefits may be problematic if a period of time elapses between the entity obtaining a present legal right to bequeathed items and receiving any assets. The entity shall assess whether the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. Whether the initial recognition of bequeathed items as assets simultaneously gives rise to the recognition of income will depend on whether a liability of the entity arises from the bequest (for example, the entity has a performance obligation under a contract with a customer, to be accounted for in accordance with AASB 15, because the Will requires the entity to use bequeathed items in a particular manner that is sufficiently specific to be able to determine when the performance obligation is satisfied¹).

Volunteer services

Nature of volunteer services

AG10 Volunteer services are services donated by individuals or other entities without charge or for consideration intentionally less than the fair value of those services. These services often meet the definition of an asset of the recipient entity because that entity controls a resource from which future economic benefits are generally expected to flow to the entity.

AG11 Entities may be recipients of volunteer services under voluntary or compulsory schemes operated in the public interest, for example:

- (a) technical assistance from other governments or international organisations;

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

- (b) persons convicted of offences may be required to perform community service for the entity;
- (c) hospitals may receive the services of volunteers;
- (d) schools may receive voluntary services from parents as teachers' aides or as board members; and
- (e) local governments may receive the services of volunteer fire fighters.

AG12 Entities may also be recipients of volunteer professional services that support their broader activities. For example, charities and religious organisations may receive free professional accounting or legal services.

Compulsory transfers

Control of compulsory transfers

AG13 An entity obtains an enforceable claim to compulsory transfers, such as rates, taxes and *finés*, when the underlying transaction or other event giving rise to control of the future economic benefits occurs. For example, an entity obtains an enforceable claim to taxes when the underlying transaction or event that gives rise to the taxing entity's² right to receive the tax (the 'taxable event') occurs (see paragraph AG14).

Taxable event

AG14 The taxable event for each tax levied is specified in the relevant taxation law. Unless otherwise specified in the relevant law, it is likely that the taxable event for:

- (a) income tax is the end of the taxation period in respect of which taxable income of a taxpayer is determined;
- (b) goods and services tax is the purchase or sale of taxable goods and services during the taxation period;
- (c) customs duty is the movement of dutiable goods or services across the customs boundary; and

² For the purposes of this Exposure Draft, a general government sector (GGS) is treated as an 'entity' when it prepares financial statements.

- (d) property tax is 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.

AG15 It is unlikely that taxes will qualify as assets of the entity responsible for their collection. This is because the entity responsible for collecting taxes does not normally control the future economic benefits embodied in tax collections (for example, in relation to government departments, see AASB 1050 *Administered Items*).

Classification

AG16 Taxes do not give rise to performance obligations,³ even when they are raised in respect of specific goods or services. This is because the taxing entity does not promise to provide goods or services in an agreement that creates obligations enforceable against the taxing entity by legal or equivalent means. Therefore, this [draft] Standard, rather than AASB 15, applies to taxes. However, taxes may give rise to refund liabilities (see paragraphs AG30-AG34).

AG17 Taxes are not contributions by owners acting in their capacity as owners.

Measurement and recognition of taxation income

AG18 A taxing entity initially measures tax receivables as if the measurement principles of AASB 9 *Financial Instruments* applied to those non-contractual receivables (ie as if tax receivables were financial assets). Therefore, tax receivables are measured on initial recognition at fair value plus, in the case of receivables not at fair value through profit or loss, any transaction costs directly attributable to their acquisition (eg costs of obtaining a judgement that a claim against a taxpayer is valid).

AG19 The taxation income arising from a taxable event occurring (and creation of a tax receivable) is measured at the amount to which the entity expects to be entitled as a result of that event occurring. Any difference between the measurement of the tax receivable in accordance with paragraph AG18 and the corresponding amount of income recognised in accordance with this paragraph is presented as an expense. Any impairment losses recognised on tax receivables are presented as expenses (rather than deducted from taxation income).

³ However, if tax payments are received on the condition that they be returned if an uncertain future event occurs, or fails to occur, they would give rise to a refund obligation that should be recognised as a liability. The treatment of such obligations is discussed in paragraphs AG30-AG34.

AG20 The amount of any refund liability for taxes, measured in accordance with paragraphs AG33-AG34, is excluded from taxation income until the entity is no longer obligated to refund that amount to the taxpayer.

AG21 When taxes are received in a period subsequent to the taxable event occurring, taxing entities may reliably measure assets arising from taxation transactions by using, for example, statistical models based on the history of collecting the particular tax in prior periods. In applying these models, taxing entities will consider the timing of receipts from taxpayers, declarations made by taxpayers and the correlation between taxation receivable and other events in the economy (reflected in economic aggregates). Measurement models will also take account of other factors such as:

- (a) the tax law allowing taxpayers to file returns after the taxing entity's financial statements are authorised for issue;
- (b) taxpayers failing to file returns on a timely basis;
- (c) valuing non-monetary assets for tax assessment purposes;
- (d) complexities in tax law requiring extended periods for assessing taxes due from particular taxpayers;
- (e) the potential that the costs of rigorously enforcing the tax laws and collecting all the taxes legally due to the government may outweigh the benefits received;
- (f) the tax law permitting taxpayers to defer payment of some taxes; and
- (g) a variety of circumstances particular to individual taxes and jurisdictions.

AG22 Measuring assets arising from taxation transactions using statistical models may result in the actual amount of assets recognised being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. For example, tax refunds and reductions in tax receivables that result from prior overestimates of tax income are deducted from tax income for the period in which the estimate is revised.

AG23 In some cases the assets arising from taxable events and the related income 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 and income would be recognised in a period subsequent to the occurrence of the taxable event, which in some cases might be several reporting periods after the taxable event.

Payable tax credits and other tax relief

- AG24 Amounts of tax relief that enter directly into the calculation of a taxpayer's tax liability (including tax allowances, exemptions and deductions, and 'non-payable tax credits') are treated as reductions in income (ie foregone income), rather than expenses. A 'non-payable tax credit' is a tax credit limited to the amount of the taxpayer's tax liability for the period. An example of tax relief that enters directly into the calculation of a taxpayer's tax liability is where taxpayers are permitted tax deductions for self-education expenses. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession.
- AG25 In contrast, a 'payable tax credit' is a tax credit that is not limited to the amount of the taxpayer's tax liability for the period; that is, any excess of the tax credit over the tax liability for the period would be payable to the taxpayer. Such tax credits might be payable to taxpayers as part of a programme in which the same amount of benefit is paid to taxpayers and non-taxpayers alike (the latter being payable exclusively in the form of a cash benefit). For example, a government may use the tax system as a convenient method of paying benefits to taxpayers, which would otherwise be paid using another payment method, such as writing a cheque, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of an individual's health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability (by providing payable tax credits), making a payment by cheque or by paying an amount directly to the insurer. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently, this amount is an expense of the government and is recognised separately from its tax income. Tax income is measured gross of any expenses incurred by granting payable tax credits.

Fines

- AG26 From the perspective of a recipient of fines, a fine is an economic benefit received or receivable from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching a law or

regulation. Fines are compulsory transfers other than taxes and rates. Penalties imposed by tax authorities are not accounted for as fines and instead are treated as income from taxes.

- AG27 In circumstances in which law enforcement officials are able to impose fines on individuals considered to have breached the law, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the penalty is treated as a fine and the recipient entity obtains control of the penalty when the agreement is reached.
- AG28 Where an entity collects fines in the capacity of an agent (that is, it does not control the future economic benefits embodied in the collected fines while it holds them for transfer to another party), the fine will not be an asset of the collecting entity.
- AG29 Fines are recognised as income when the receivable satisfies the criteria for recognition as an asset set out in paragraph 11. Fines receivable are measured and accounted for consistently with taxes receivable (see paragraph AG18). Consequently, fines receivable are initially measured at their fair value plus, in the case of receivables not at fair value through profit or loss, any transaction costs directly attributable to the acquisition of those receivables (eg the costs of proving that the breach occurred).

APPENDIX C

TRANSITION

This appendix is an integral part of the [draft] Standard and has the same authority as the other parts of the [draft] Standard.

- C1 For the purposes of the transition requirements in paragraphs C2–C6, the date of initial application is the start of the reporting period in which an entity first applies this [draft] Standard.
- C2 An entity shall apply this [draft] Standard using one of the following two methods:
- (a) retrospectively to each prior reporting period presented in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
 - (b) retrospectively with the cumulative effect of initially applying this [draft] Standard recognised at the date of initial application in accordance with paragraphs C4–C5.
- C3 Notwithstanding the requirements of paragraph 28 of AASB 108, when this [draft] Standard is first applied, an entity need only present the quantitative information required by paragraph 28(f) of AASB 108 for the annual reporting period immediately preceding the first annual reporting period for which this [draft] Standard is applied (the ‘immediately preceding period’) and only if the entity applies this [draft] Standard retrospectively in accordance with paragraph C2(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.
- C4 If an entity elects to apply this [draft] Standard retrospectively in accordance with paragraph C2(b), the entity shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.
- C5 For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this [draft] Standard is applied retrospectively in accordance with paragraph C2(b):
- (a) the amount by which each financial statement line item is affected in the current reporting period by the application of this

[draft] Standard as compared to AASB 1004 *Contributions* before the change; and

- (b) an explanation of the reasons for significant changes identified in paragraph C5(a).

References to AASB 9

- C6 If an entity applies this [draft] Standard but does not yet apply AASB 9 *Financial Instruments*, any reference in this Standard to AASB 9 shall be read as a reference to AASB 139 *Financial Instruments: Recognition and Measurement*.

APPENDIX D

AMENDMENTS TO OTHER AUSTRALIAN ACCOUNTING STANDARDS

These proposals are part of the [draft] Standard.

- D1 The wording of the [draft] Standard as set out in this Exposure Draft presumes that the following amendments will be made to other Australian Accounting Standards at the same time as the approval of a Standard resulting from the ED. If approved, these amendments would have the same application date as the [draft] Standard. If not-for-profit entities adopt that Standard early, they would need to apply these amendments simultaneously.
- D2 Paragraphs proposed to be added to other Standards are presented below as ‘clean’ text. The proposed amendments to existing paragraphs are shown below in marked-up form (deleted text is struck through and new text is underlined).

Amendment to AASB 102 Inventories

- D3 Paragraph Aus10.1 of AASB 102 is amended as follows:

Aus10.1 ~~Notwithstanding paragraph 10, in respect of not-for-profit entities, where inventories are acquired at no cost, or for nominal consideration, Paragraphs 25-26 and 28-32 of AASB 10XX *Income of Not-for-Profit Entities* require a not-for-profit entity that acquires inventories in a transaction that includes a donation by the vendor to measure the cost of those inventories shall be the current replacement cost as their fair value in accordance with AASB 13 *Fair Value Measurement* as at the date of acquisition.~~
Paragraphs 25-26 and 28-32 of AASB 10XX *Income of Not-for-Profit Entities* require a not-for-profit entity that acquires inventories in a transaction that includes a donation by the vendor to measure the cost of those inventories shall be the current replacement cost as their fair value in accordance with AASB 13 *Fair Value Measurement* as at the date of acquisition.

Amendments to AASB 116 Property, Plant and Equipment

- D4 Paragraph Aus15.2 is deleted, and paragraphs Aus15.1 and Aus15.3 of AASB 116 are amended as follows:
- Aus15.1** ~~Notwithstanding paragraph 15, in respect of not-for-profit entities, where an asset is acquired at no cost, or for a nominal cost, Paragraphs 25-26 and 27-30 of~~
Paragraphs 25-26 and 27-30 of

AASB 10XX *Income of Not-for-Profit Entities* require a not-for-profit entity that acquires an item of property, plant and equipment in a transaction that includes a donation by the vendor or a compulsory transfer to the entity to measure the cost of that item is as its fair value as at the date of acquisition.

- Aus15.3 In respect of not-for-profit entities, for the purposes of this Standard, the initial recognition at fair value of an item of property, plant and equipment, ~~acquired at no or nominal cost, acquired in a transaction that includes a donation by the vendor or a compulsory transfer to the entity,~~ consistent with the requirements of ~~paragraph Aus15.1~~ AASB 10XX, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 31, and the supporting commentary in paragraphs ~~32~~ 34 to 35, only apply where an entity elects to revalue an item of property, plant and equipment ~~in subsequent reporting periods~~ after its recognition.

Amendment to AASB 117 *Leases*

- D5 A new paragraph Aus20.1 is added as follows:

Aus20.1 In respect of a finance lease in which the lessee is a not-for-profit entity and the lease provisions include a donation by the lessor or a compulsory transfer to the entity, the requirements in paragraph 20 are modified by paragraphs 25-30 of AASB 10XX *Income of Not-for-Profit Entities*. AASB 10XX requires that, in such a lease, the lease asset and lease liability are initially measured at the fair value of the leased property at the inception of the lease.

Amendments to AASB 138 *Intangible Assets*

- D6 Paragraph Aus24.1 of AASB 138 is amended as follows:

Aus24.1 ~~Notwithstanding paragraph 24, in respect of not for-profit entities, where an asset is acquired at no cost, or for a nominal cost, Paragraphs 25-30 of AASB 10XX *Income of Not-for-Profit Entities* require a not-for-profit entity that acquires an intangible asset in a transaction that includes a donation by the vendor or a compulsory transfer to the entity to measure the cost~~

of the asset is as its fair value as at the date of acquisition.

D7 The footnote to paragraph 44 of AASB 138 is amended as follows:

AASB 120 only applies to for-profit entities. Not-for-profit entities are required to ~~recognise~~ initially measure the intangible asset and the grant ~~initially~~ at fair value in accordance with ~~AASB 1004 Contributions~~ paragraphs 25-26 and 28-31 of AASB 10XX.

Amendment to AASB 140 *Investment Property*

D8 Paragraph Aus20.1 of AASB 140 is amended as follows:

Aus20.1 ~~Notwithstanding paragraph 20, in respect of not-for-profit entities, where an investment property is acquired at no cost or for nominal cost, Paragraphs 25-30 of AASB 10XX *Income of Not-for-Profit Entities* require a not-for-profit entity that acquires an investment property in a transaction that includes a donation by the vendor or a compulsory transfer to the entity to measure its the cost of the asset shall be deemed to be~~ as its fair value as at the date of acquisition.

Amendments to AASB 141 *Agriculture*

D9 Paragraphs Aus12.1 and Aus38.1 are added, former paragraph Aus38.1 is renumbered (as paragraph Aus38.2) and amended, and a new paragraph Aus38.3 is added, as follows:

Aus12.1 **In respect of not-for-profit entities, the other exception to the measurement basis in paragraph 12 is in relation to government grants of biological assets, and other acquisitions of biological assets in transactions that include a donation by the vendor or a compulsory transfer to the entity. Paragraphs 25-30 of AASB 10XX *Income of Not-for-Profit Entities* require such biological assets to be measured on initial recognition at fair value.**

Aus38.1 **Not-for-profit entities shall measure on initial recognition government grants of biological assets, and other acquisitions of biological assets in transactions that include a donation by the vendor or a compulsory**

transfer to the entity, at the fair value of the assets as at the date of acquisition, in accordance with paragraphs 25-30 of AASB 10XX.

Aus38.12 Notwithstanding paragraphs 34-38, not-for-profit entities ~~recognise~~ shall account for government grants related to a biological asset in accordance with AASB ~~1004~~ 10XX *Contributions*.

Aus38.3 Not-for-profit entities measure biological assets to which a government grant relates in accordance with paragraphs 12 and 30 – 33.

APPENDIX E [FOR AASB 15]

AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES

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

Introduction

- IG1 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.
- IG2 This appendix also provides guidance to assist not-for-profit entities to determine whether particular transactions or other events, or components of transactions, are within the scope of AASB 15 (which applies to contracts with customers) or AASB 10XX *Income of Not-for-Profit Entities* (which applies to transactions and other events that do not arise from contracts with customers).

Identifying whether a Contract with a Customer Exists

Enforceable agreement

- IG3 An inherent feature of a contract with a customer is that the entity makes promises in an agreement that creates enforceable rights and obligations. Paragraphs IG4-IG8 provide guidance for not-for-profit entities on when an agreement creates enforceable rights and obligations.
- IG4 An agreement can be enforced by another party through legal or equivalent means. It is not necessary for each promise to transfer goods or services to be enforceable by legal or equivalent means, as

long as some enforceable obligations of the entity arise from the agreement. An agreement is enforceable by another party through legal or equivalent means if, for example:

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

IG5 In relation to paragraph IG4(b), compensation for failing to transfer promised goods or services could be either a return of consideration or a penalty for non-performance that is sufficiently severe to compel the entity to fulfil its promise to transfer goods or services. In some circumstances, where rights to specific performance are unavailable or unnecessary, the authority to require compensation may be the key determinant of the enforceability of an agreement involving a promise to transfer goods or services. A capacity to impose a severe penalty for non-performance can exist without a capacity to require a return of transferred assets or assets of equivalent value.

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

IG7 In contrast to the factors in paragraph IG4, the following circumstances would not, of themselves, cause an agreement involving a promise to transfer goods or services to be enforceable by another party through legal or equivalent means:

- (a) a transferor has the capacity to withhold future funding to which the entity is not presently entitled; and
- (b) a not-for-profit entity makes a statement of intent to spend money or consume assets in particular ways. A statement of intent would, of itself, be insufficient to cause an agreement to be enforceable, even if that statement is the subject of budget-to-actual reporting and of other oversight mechanisms to discharge accountability for the raising and expenditure or consumption of assets.

IG8 In relation to paragraph IG7(a), a transferor's capacity to withhold future funding to which the entity is not presently entitled can be distinguished from circumstances in which a transferor presently holds refund rights, or has the capacity to impose a severe penalty, in the event of the transferee's non-performance, but might choose to obtain such a refund or impose such a penalty by deducting the amount of the refund or penalty from a future transfer to the entity. For example, a transferor's capacity to withhold future funding to which the transferee is not presently entitled would differ from any circumstances in which a transferor could demand a refund of granted assets in the event of the transferee's non-performance, regardless of whether it makes any future transfers to the transferee, but chooses for convenience to 'net settle' by deducting the refund amount from a future transfer. In this latter case, the transferor could enforce against the entity a promise to provide goods or services.

Contract

- IG9 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).
- IG10 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 refers to that entity's customary practice in performing or conducting its activities.

Customer

- IG11 In contracts with customers, the customer is the party that promises consideration in exchange for goods or services for which it obtains all, or substantially all, of the benefits from those goods or services.

However, in various contracts with customers in any sector, the customer directs 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.

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 to obtain 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.

Commercial substance

IG12 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 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

Sufficiently specific promise

IG13 A necessary condition for identifying a performance obligation in respect of a not-for-profit entity's promise to transfer goods or

services to a counterparty in a contract is that the promise is sufficiently specific to be able to determine when the obligation is satisfied. Judgement is required in assessing whether a promise is sufficiently specific. Such judgement takes into account any conditions specified regarding the promised goods or services, including conditions regarding the following aspects:

- (a) the nature or type of the goods or services;
- (b) the cost or value of the goods or services;
- (c) the quantity of the goods or services; or
- (d) the period over which goods or services must be transferred.

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

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

IG16 As mentioned in paragraph IG4, a promise to transfer goods or services can qualify as a performance obligation without being enforceable, provided it is part of an agreement that can be enforced by another party through legal or equivalent means. In contrast, whether such promises are ‘sufficiently specific’ to qualify as performance obligations is assessed separately for each promise. Paragraphs IG15 and IG 17 note circumstances in which a condition on a transfer of assets to an entity might not be sufficiently specific to qualify as a performance obligation.

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

process might not provide sufficient evidence that a performance obligation exists.

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

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

Recognition of a Donation Component of a Contract with a Customer

IG19 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 benevolent objectives. The donation represents the amount of consideration that is not attributable to the goods or services promised by the entity to its customer.

IG20 A not-for-profit entity shall account for a separately identifiable donation component of a contract with a customer separately from the revenue that is recognised when the entity transfers a good or service to the customer. The donation component is recognised as donation income under [draft] AASB 10XX when the entity recognises the inflow(s) of the donated asset(s). Consequently, the consideration attributable to the separately identifiable donation component is excluded from the transaction price allocated to each performance obligation in the contract.

IG21 The identification of whether a contract with a customer includes a donation component to be accounted for separately requires a qualitative assessment, using the available evidence, of whether:

- (a) the customer intended to make a donation to the entity (see paragraphs IG22-IG23); and, if so,
- (b) the donation is separately identifiable from the goods or services promised in the contract (see paragraphs IG24-IG30).

Customer's intention to make a donation

IG22 Examples of evidence of a customer's intention to make a donation to the entity in addition to purchasing goods or services from the entity include any one or more of the following:

- (a) the goods or services are promised as part of a fundraising event being held by, or on behalf of, the entity;
- (b) a portion of the consideration is identified as being a tax deductible donation; or
- (c) an invitation to the customer to increase the amount of promised consideration specifically for the purposes of making a donation to the entity, which the customer has accepted.

IG23 If there is no qualitative evidence to suggest an intention of the customer to make a donation, a substantial difference between the amount of promised consideration and the estimated stand-alone selling prices of the promised goods or services should cause the entity to investigate further whether those stand-alone selling prices have been estimated faithfully or whether there are any other promised goods or services in the contract that were not previously identified. For example:

- (a) the entity might conclude that a stand-alone selling price of a promised good or service estimated using an adjusted market assessment approach or an expected cost plus a margin approach [see paragraphs 79(a) and (b)] includes adjustments or margins that do not faithfully represent the stand-alone selling price for the good or service that is applicable for the circumstance and class of customer involved; and
- (b) as a consequence of re-estimating the stand-alone selling price of that promised good or service, the entity might ultimately conclude that the contract does not include a donation component.

Separately identifiable donation component

IG24 A donation is separately identifiable from the goods or services promised in the contract if all of the following criteria are met:

- (a) there is evidence that part of the consideration paid or payable by the customer is not part of the consideration to which the

entity expects to be entitled in exchange for the promised good or service;

- (b) the entity's entitlement to retain the donation is not conditional on that entity transferring a good or service to the customer (donor); and
- (c) the amount of the donation component can be measured reliably.

IG25 An example that would satisfy the criteria in paragraphs IG24(a) and (c) is where 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 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 and their amounts can be measured reliably. However, if the annual subscription fee and the donation were both refundable if access were not provided for the entire subscription period, the criterion in paragraph IG24(b) would not be met and the donation would not be separately identifiable from the annual subscription for the promised access. In that case, the donation amount would not be accounted for separately and instead the donation amount 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 as the access services are provided. Similarly, if a fundraising dinner hosted by a charity has an advertised donation component of the ticket price but the entire ticket price would be refundable if the dinner were cancelled by the charity, the criterion in paragraph IG24(b) would not be met and the donation component would not be separately identifiable from the consideration for the promised dinner.

IG26 A separately identifiable donation to a not-for-profit entity does not arise merely because a customer chose to purchase a good or service from that entity to help the entity pursue its benevolent aims, even if the customer agrees to pay more for a good or service because it is provided by a benevolent entity. For example, if a charity raises funds by selling leather footballs that are manufactured by a sporting goods supplier and embossed with the charity's logo, a premium charged for those footballs compared with the typical price of those footballs purchased from various major sporting goods retailers (that is, without the charity's logo) does not indicate that there is an identifiable donation component. This is because a football with a charity's logo should not be presumed to have the same stand-alone

selling price as a football without that logo that in all other respects is identical (for example, buyers of footballs with the charity's logo can benefit from being seen to have purchased a good from the charity). Therefore, the criterion in paragraph IG24(a) for separately identifying a donation component of a contract would not be satisfied.

- IG27 Income from a separately identifiable donation component of a contract with a customer is accounted for separately from any revenue recognised from the transfer of goods or services to that customer, even when the donation income and contract revenue are recognised in the same period.
- IG28 Assessing whether a separately identifiable donation component of a contract with a customer is material (and therefore needs to be accounted for separately) should be made on an individual contract basis without reassessment at an aggregate or portfolio level.
- IG29 When a donation component of a contract with a customer is not separately identifiable, the entire amount of consideration paid or payable by the customer under the contract is included in the transaction price allocated to the performance obligation(s) in the contract in accordance with paragraph 46.
- IG30 Donations that are not a component of a contract with a customer are accounted for in accordance with [draft] AASB 10XX.

AUSTRALIAN ILLUSTRATIVE EXAMPLES FOR NOT-FOR-PROFIT ENTITIES

These [draft] illustrative examples accompany, but are not part of, AASB 15 and AASB 10XX. They illustrate aspects of the Australian guidance for not-for-profit entities in AASB 15, and aspects of AASB 10XX, but are not intended to provide interpretative guidance and are only applicable to not-for-profit entities. The AASB will determine which of these examples accompanies AASB 15 or AASB 10XX, respectively, after it considers comments received on this Exposure Draft.

The [draft] examples illustrating aspects of the Australian guidance for not-for-profit entities in AASB 15 complement, and have the same status, as the Illustrative Examples accompanying IFRS 15 Revenue from Contracts with Customers, which are available in a separate file on the AASB website. AASB website users in Australia can access those IASB Illustrative Examples at: http://www.aasb.gov.au/admin/file/content105/c9/IFRS15_IE_5-14.pdf

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* and [draft] AASB 10XX *Income of Not-for-profit Entities* 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, or [draft] AASB 10XX, as applicable. The evaluations in each example are not intended to represent the only manner in which AASB 15 and [draft] AASB 10XX could be applied.

Assessing whether performance obligations in contracts with customers exist, and the resulting treatment

- IE2 Examples 1-8 illustrate the requirements of AASB 15, in particular paragraphs IG3-IG30, for:
- (a) identifying whether a transaction or agreement involves a performance obligation in a contract with a customer; and, if so,
 - (b) how to account for the transaction or agreement, including assessing whether the transaction includes an identifiable donation component.

Example 1—Charity’s Enforceable Promises

An Australian for-profit company benevolently provides dwellings for 7,500 homeless people in various Australian cities and contracts with an Australian charity (the reporting entity in this example) to run those dwellings, including placing people in that accommodation and providing counselling and other services to those inhabitants. The company pays the charity \$15 million per quarter, in advance, for those services. The charity must acquit the consideration received, which is refundable if, and to the extent that, specified performance conditions are not met. On 30 June 20X1, the charity receives a payment of \$15 million for the quarter beginning on 1 July 20X1.

Because the charity is operating as a service provider, it concludes that its contract with the company is a contract with a customer. Based on similar contracts to provide similar services to public sector entities, the charity concludes that the consideration of \$15 million faithfully reflects the aggregate stand-alone selling price of the promised services. For this reason, and because there is not an indication by the customer that a component of the consideration is provided without expecting services to be transferred to it in return, the charity concludes that the contract does not include a donation component.

Accordingly, the charity accounts for the entire amount of the \$15 million payment in accordance with AASB 15. The charity identifies a performance obligation in respect of the promised services to which the quarterly instalment received in advance relates, and recognises a contract liability for \$15 million. The revenue is recognised when the promised services are transferred to the customer.

Example 2—Payment to a Charity for Discretionary Use

On its website, an Australian charity advises potential donors that each donation of \$800 would enable it to build a well providing clean drinking water to residents in a particular developing country. It includes a disclaimer in its representations indicating that donated money may be used for other aid activities in the region in response to changing circumstances.

During the current period, consideration received by the charity included 200 donations of \$800 each, indicated by the donors to be for the purpose of building wells. Building the wells was suspended

by the charity during the period due to an outbreak of war. The charity redirected some of the donations received for wells to emergency food and accommodation for displaced people in that country. Because of the conditions upon which the donations were made, if any donors were to disapprove of that redirection of aid, they would have no recourse against the charity.

Because the charity has discretion over how donated money is used (provided the use is consistent with its overall objectives), it does not have an obligation to the donor to transfer a specific good or service in order to be entitled to the promised consideration. Therefore, in accordance with [draft] AASB 10XX, the charity would recognise the donations as income immediately upon gaining control of the donated assets.

Example 3—Restrictions on the Timing of Expenditure

An Australian charity receives a government grant of \$2 million on 31 May 20X0, which is refundable to the extent that the grant money is expended outside the specified period of 1 July 20X0 to 30 June 20X1. The charity is entitled to retain any interest earned on the grant money.

The grantor can enforce its rights under the contract because it can require refund of the grant if the charity breaches the condition to provide the services over the specified period.

The charity's annual reporting period ends each 30 June. Additional assumed facts are as follows.

Example 3A

The contract between the grantor and the charity specifies that the grant must be expended on crisis counselling services to be provided for a specified number of hours per week for the entire year ending 30 June 20X1. The charity expects to honour its promise to provide the counselling services. The charity's promise is sufficiently specific to enable identification of when the promise is satisfied. Therefore, the charity accounts for the grant in accordance with AASB 15.

The charity allocates the \$2 million grant to the performance obligation to provide counselling services, and recognises a contract liability for \$2 million. Because the charity has not provided any services under that arrangement as at 30 June 20X0, the charity will

recognise revenue in the subsequent reporting period when it subsequently satisfies its performance obligation by providing the promised counselling services.

Example 3B

The contract between the grantor and the charity does not specify that the grant must be expended on particular services. The only specifications in the contract are that:

- (a) the grant must be used in accordance with the charity's overall objectives; and
- (b) the grant money is expended between 1 July 20X0 and 30 June 20X1.

Consequently, the grantor is not promised a particular service by the charity, and it is concluded that the charity does not have a performance obligation. Accordingly, the grant contract is not a contract with a customer, and the grant is accounted for in accordance with [draft] AASB 10XX.

Because the charity is entitled to retain any interest earned on the unexpended grant money, it controls the grant money from the date of receipt (on 31 May 20X0), despite not having authority to spend the money before 1 July 20X0. The charity has the discretion not to expend the grant money before 1 July 20X0, and therefore does not have a liability in relation to the potential breach of contract. If the charity breaches the contract by expending money before 1 July 20X0 or by failing to expend the grant in full by 30 June 20X1, the breach is the obligating event giving rise to a liability (in this instance, a penalty). For these reasons, and because the grant is not a contribution by an owner, the charity recognises the grant of \$2 million as income as at 31 May 20X0. If the charity breaches the contract, it recognises a liability and equivalent expense for the amount due for repayment when the breach occurs.

Example 3C

Assume the same facts as Example 3B, except that the charity is not entitled to retain any interest earned on the unexpended grant money.

The not-for-profit entity would not obtain control of the grant money until it obtains the authority to spend the money (which occurs on 1 July 20X0). Whether the not-for-profit entity recognises income in

respect of the grant as at 1 July 20X0 would depend on whether the contract gives rise to a liability other than a performance obligation (AASB 15 would not apply to the recognition of the grant income), such as a refund liability. If the not-for-profit entity incurs such a liability, it would recognise grant income when the liability is extinguished. Otherwise, the grant income of \$2 million would be recognised as at 1 July 20X0.

Example 4—Grant from Another Level of Government Without Specifications

The Australian Government (transferor) makes a grant of \$10 million to a local government in a socio-economically deprived area. The local government (reporting entity) has authority under legislation to undertake various social benefit programmes. There are no specifications attached to the grant, although the transferor and the community expect the grants will be used to provide social benefits.

Because there are no specifications attached to the grant, the entity does not have a performance obligation and, as such, the grant is not accounted for in accordance with AASB 15. Accordingly, the grant is accounted for in accordance with [draft] AASB 10XX and recognised as income at the point of time when the local government obtains control of the transferred funds. Immediate recognition of the grant as income occurs regardless of when the local government uses the grant to provide social benefits to the community.

Example 5—Agreements between the Australian Government and various State/Territory Governments

Agreements involving Specific-Purpose Payments

Example 5A: specific outputs are targeted

The Australian Government enters into an agreement with a State Government (documented in a Memorandum of Understanding¹) under which it pays a grant of \$70 million to the State Government to fund a health initiative with clearly specified outputs of that State Government (the reporting entity). The Australian Government can enforce repayment of the grant if specified targets are not achieved; that is, the agreement is considered to be enforceable. The services

¹ Not all Memoranda of Understanding would necessarily be enforceable.

are provided to the Australian Government notwithstanding that the ultimate beneficiaries of those services are members of the community. The promises to transfer goods or services under the agreement are specified in sufficient detail to be able to determine when those promises would be satisfied. Therefore:

- (a) the State Government accounts for the grant in accordance with AASB 15; and, consequently,
- (b) performance obligations are identified in respect of the grant, and a contract liability is recognised.

Example 5B: specific outcomes are targeted

Assume instead that, under the grant agreement, specified outcomes form the basis for assessing the effectiveness of the State Government's performance in conducting the health initiative. The promised goods or services are those that must be provided in order for the State Government to achieve the specified outcome. If the specified outcomes are, in part, beyond the control of the State Government, the criterion used by the Australian Government to identify whether the State Government should retain the payment might be that the State Government has, in good faith, provided services to the Australian Government in pursuit of those outcomes. Particular service measures might be used as criteria for making that assessment. In such a case, the promise to provide those services (outputs) would be a performance obligation (to be accounted for in accordance with AASB 15), even though the aims of the programme are the achievement of specified outcomes.

Example 5B(i): achievement of specified outcomes would only affect future funding

Assume the facts in Example 5B. In addition, assume that whether targeted outcomes are achieved would affect whether the State Government receives future Australian Government funding for similar programmes, but would not affect whether the State Government is entitled to retain payments for the services it provides under its existing contract with the Australian Government. Nevertheless, as in Example 5B, the agreement is enforceable because the Australian Government can enforce repayment of the grant if it assesses that the State Government has not adequately pursued the targeted outcomes. The effect on future funding is not part of that existing contract and has no effect on the assessment of whether performance obligations arise from the grant. Therefore, the

conclusion is the same as in Example 5B.

Example 5C: time specification without a promise to provide a good or a service

If an entity (such as a State or Territory Government) were provided a refundable transfer on the condition that it be used by the State or Territory Government by a specified date, without any specification regarding the nature of the goods or services to be provided, absent any other factors there would be no promise to transfer goods or services to the customer – for example, the condition could be satisfied by settling debts of the entity. The time-based specification would not give rise to a performance obligation, and the transfer would be accounted for in accordance with [draft] AASB 10XX. This applies the same principle as Example 3B.

Agreements involving General-Purpose Payments

Example 5D: ‘general revenue assistance’

‘General revenue assistance’, including goods and services tax distributions, from the Australian Government to the States and Territories is provided without conditions and therefore does not give rise to liabilities of those recipient entities. Such payments are accounted for by those recipients in accordance with [draft] AASB 10XX, and recognised as income when the entity obtains control of the assets received or receivable.

Identifiable donation component

Example 6—Fundraising Drive: Goods

A not-for-profit entity sells chocolates made by a well-known manufacturer as a fundraising drive. The chocolates are repackaged to explicitly indicate the fundraising purpose.

The chocolates are sold by the not-for-profit entity for a greater margin than a for-profit entity would typically generate by selling chocolates. This is partly because the chocolates typically are available to buyers in a more convenient location (eg a workplace) than a retail premises. In addition, buyers of the chocolates are often motivated to do so because of the not-for-profit entity’s benevolent aims. If the chocolates were ordered and paid for in advance and either the chocolates delivered were spoiled or the not-for-profit entity

were unable to deliver the chocolates, the customer would be entitled to a full refund of the purchase price.

Therefore, notwithstanding the fundraising purpose of the chocolate drive, the sales to customers do not include an identifiable donation component—the transaction price is entirely attributable to the chocolates and revenue is recognised in accordance with AASB 15. [See the similar examples in the last sentence of paragraph IG25 and in paragraph IG26 of Appendix E.]

Example 7—Fundraising Drive: Good and Service

A golf club (not-for-profit entity) has facilities that include a restaurant and accommodation. As a fundraiser, the club sells packages that include one night's accommodation and a set-menu dinner for two for a total cash price of \$500. The club customarily sells the accommodation separately for \$220 and the dinner for two separately for \$160. The club also customarily sells the two promised items as a package for \$325. Consistent with that usual bundled price, the club advertises the value of these promises collectively as \$325, and that the amount of the donation per ticket is \$175. In the unlikely event that the club were not to provide the accommodation and dinner to ticket-holders, the \$325 paid in respect of those promises would be refunded. However, the advertised donation amount (\$175) is non-refundable.

The identifiable donation component of each package (\$175) is excluded from the transaction price allocated to the performance obligations in the contract and recognised as income, in accordance with [draft] AASB 10XX, when the consideration from the customer is received or receivable. In accordance with AASB 15, the club would measure the performance obligations arising from each package sold at \$325 and recognise a contract liability for that amount. The club would recognise revenue of \$325 allocated to the dinner and accommodation as and when that good and service are provided to the customer.

Example 8—Fundraising Dinner: Ticket Amount is Fully Refundable

A not-for-profit entity holds an annual fundraising dinner that is the most important social event in its local community. It sells tickets before the end of the reporting period, and the event is held in the following reporting period. The ticket price is \$600 per head, and is fully refundable if the dinner is cancelled. Based on the menu, the retail price of the meal and drinks that would be charged by a local restaurant would be approximately \$200 per ticket. Hosting the dinner also provides patrons (customers) with the benefit of facilitating socialising with a wide range of community members (including networking).

Customers regard the contract as including a meal, drinks, opportunity to socialise and (in view of the publicly announced fundraising nature of the event and the high price of tickets) an implicit donation component. However, that donation component is not identifiable separately from the goods and services promised in the contract, because the entity's entitlement to retain the donation is conditional on it transferring the promised goods and services to the customer (the tickets are fully refundable).

Because there is not an identifiable donation component of each ticket sold, the entire ticket price (\$600) would be allocated to the performance obligations for the fundraising dinner. In accordance with AASB 15, the entity would recognise a contract liability of \$600 for each ticket sold, and would recognise that amount as revenue when the event is held.

Control over inflows; acquisitions of assets involving donations; and refund liabilities – no contract with a customer

IE3 Examples 9-17 illustrate the requirements in [draft] AASB 10XX regarding:

- (a) when control is obtained over inflows of assets (paragraphs AG4-AG7 and AG13-AG15);
- (b) acquisitions of assets involving donations (paragraphs 25-30); and

- (c) refund liabilities in relation to taxes, including rates (paragraphs AG30-AG34).

Example 9—Pledge – Television Appeal for Public Hospital

On the evening of 30 June 20X5, a local television station conducts a fundraising appeal for a public hospital (reporting entity). The reporting date of the public hospital is 30 June. Television viewers are invited to contact the station to pledge that they will donate a specified amount of money. At the conclusion of the appeal, \$5 million has been pledged. The pledged donations are not enforceable against those making the pledge. Experience with previous appeals indicates approximately 75 per cent of pledged donations will be made.

At its 30 June reporting date, the public hospital does not recognise donation income in its financial statements arising from the pledges made. The public hospital does not control the assets related to the pledges because the pledges are unenforceable and, as such, the entity cannot direct the use of, and obtain substantially all of the remaining benefits from, the pledged assets. Instead, the public hospital will subsequently recognise amounts of pledges as donation income if and when the donations are received.

Example 10—Income Tax: Control and Measurement

This example does not address whether, in particular circumstances, income tax can be measured reliably.

The Australian Government (reporting entity) imposes tax on income earned by Australian taxpayers. As part of the administration of the income tax system for individuals, employers are required to withhold taxes from payroll and remit withholdings, generally on a monthly basis. Individuals with significant non-salary (for example, investment) income are required to make estimated tax payments on a quarterly basis. In addition, individuals must file a tax return with the taxation office by 31 October of the tax year (year ending 30 June) unless lodging via a tax agent, and pay the remaining tax owed (or receive a refund) shortly thereafter. The Government's annual reporting period ends on 30 June, and the Government presents audited annual consolidated financial statements to parliament each November – before many individuals' tax returns are assessed.

The Government controls an asset – income tax receivable – when the taxable event occurs, which is the end of the taxation period in respect of which taxable income of a taxpayer is determined. In accordance with [draft] AASB 10XX, at the end of the reporting period, the Government recognises assets in respect of personal income tax on the taxable income for the reporting period to the extent that it can reliably measure it. Assets are also recognised in respect of income taxes on taxable income earned by taxpayers in prior periods, but which did not satisfy the criteria for recognition as an asset until the current reporting period. The recognition of tax assets simultaneously gives rise to the recognition of income, except to the extent that an obligation to potentially refund overpayments of tax is recognised. Overpayments can occur when tax instalments paid on estimated investment income exceed the taxpayer’s eventual tax liability for the period.

In addition, when the taxable event occurs, tax income would be recognised for the amount by which refund liabilities for prepaid taxes are reduced or derecognised.

Example 11—Land Tax

A State Government (reporting entity) levies a land tax on a progressive scale up to two per cent of the unimproved value of freehold land within its jurisdiction. The Government’s annual reporting period is 1 July to 30 June. The tax is levied (ie an enforceable claim against each property owner is created) and assessments are issued on 31 August, with notices of assessment sent to property owners in September. The amount of land tax levied is based on values assessed at 30 June of the same calendar year. Payment is due by 31 December of that year.

The Government controls an asset – land tax receivable – when the taxable event (the issue of assessments) occurs – 31 August. In accordance with [draft] AASB 10XX, the Government recognises the receivables and income in the financial statements of the reporting period in which that date occurs.

Example 12— Fine

A company is found guilty of polluting a river and is required to clean up the pollution and pay a fine of \$50 million.

In accordance with [draft] AASB 10XX, the Government (reporting entity) recognises a receivable and income for the fair value of the \$50 million fine receivable in the financial statements of the period in which the fine is imposed.

Donations**Acquisitions of assets involving donations****Example 13—Purchase of Property**

A not-for-profit entity purchases a parcel of land with a fair value of \$1 million from a benefactor for consideration of \$100,000. An assessment of the facts and circumstances indicates that the vendor intended to make a donation to the entity.

In its financial statements for the period in which the purchase takes place, the entity initially recognises the land at a cost of \$1 million (measured at the land's fair value, in accordance with paragraph 25 of [draft] AASB 10XX), a reduction in its asset 'cash' of \$100,000 and donation income of \$900,000 (the fair value of the donation).

The transaction is not a contract with a customer of the entity, and therefore is not accounted for in accordance with AASB 15.

Example 14—Finance Lease with Below-Market Minimum Lease Rentals

A community organisation (not-for-profit entity) enters a thirty-year finance lease with a local government (the lessor) for the use of a facility that is surplus to the local government's needs. In view of the community organisation having complementary objectives to those of the local government, the local government decides to make an in-substance donation of the use of the facility for the lease term. Consequently, the lease contract specifies lease rentals of \$1 per annum. At the inception of the lease, the fair value of the right to use

the leased property for thirty years is \$360,000.

Under the lease contract, the community organisation is not obliged to provide specified services with the leased facility. Therefore, the lease does not give rise to a liability other than the obligation for the lease payments of \$1 per annum. As at the commencement of the lease term, the community organisation recognises a finance lease asset, initially measured at its fair value of \$360,000 in accordance with paragraph 25 of [draft] AASB 10XX and recognises donation income of \$360,000 (the fair value of the donation).

Example 15—Financial Liability

A charity is provided a below-market loan by a benefactor. The loan proceeds are \$100,000 and the charity promises to repay the \$100,000 in five years' time and pay annual interest payments at a rate of 4% per year. The market rate of interest for the loan is 6% per year.

The fair value of the financial liability at the inception of the arrangement is \$91,600, being the present value of \$100,000 payable in five years, and the scheduled \$4,000 annual interest payments, at 6% per year. In accordance with the requirements of AASB 9, the financial liability is measured at fair value. (For simplicity, transaction costs are assumed to be nil.)

In the reporting period in which the transaction takes place, the charity recognises cash of \$100,000, a financial liability at its fair value of \$91,600 and income of \$8,400 (the fair value of the donation).

Volunteer services

IE4 Example 16 illustrates the factors a community centre considers regarding whether and how to account for volunteer services received. Under paragraph 19 of [draft] AASB 10XX, only certain not-for-profit entities in the public sector are required to recognise volunteer services that meet specified criteria. Therefore, other not-for-profit entities, such as charities and community service organisations, are not required to recognise volunteer services, but may elect to do so if the fair value of the volunteer services can be measured reliably (see paragraph 21 of [draft] AASB 10XX).

Example 16—Volunteer Services: Community Centre

One of a community centre's programmes is providing outings and off-site vocational training three days per week for individuals with disabilities. The community centre obtains the services of volunteer drivers for two mini-buses, each of which is in use for 6 hours per day for 3 days a week. The programme operates for 40 weeks per annum. Because of the limited grant funding for the programme, and because most other funding received by the community centre is tied to other programmes, if volunteer drivers were unobtainable, the programme would need to close.

Under paragraph 19 of [draft] AASB 10XX, the community centre is not a type of entity that is required to recognise particular volunteer services as a donation. The community centre determines that it can reliably measure the fair value of the volunteer services received, and elects to recognise the volunteer services as a donation because it provides relevant information about the assets the centre receives and consumes. The community centre estimates the fair value of the volunteer services as \$35 per hour. Based on that amount, it measures the fair value of the volunteer services for the financial year as: $\$35 \times 2$ (drivers) $\times 6$ (hours) $\times 3$ (days) $\times 40$ (weeks), that is, \$50,400.

Accordingly, the community centre recognises income (donated services received) and an equivalent expense (volunteer services consumed) of \$50,400 for the year. (This is the same outcome that would have occurred if the community centre received a cash donation of \$50,400 and paid that amount to a contractor to provide driving services.)

Refund liabilities in transactions that are not a contract with a customer

Example 17—Prepaid Local Government Rates

A local government (reporting entity) levies rates for the rating period of 1 July to 30 June (which coincides with its annual reporting period). Ratepayers may elect to pay rates in advance of the commencement of the rating period (eg when they will be overseas for several months).

Rates paid in advance of the commencement of the rating period precede the taxable event, which is the levying of the rates. The local government recognises an increase in an asset (cash at bank) and, in

accordance with paragraph AG33 of [draft] AASB 10XX, an increase in a refund liability for the same amount. The refund liability is derecognised and rates income is recognised when the rate is levied.

AASB BASIS FOR CONCLUSIONS ON ED 260

This Basis for Conclusions accompanies, but is not part of, AASB 15 and AASB 10XX.

Introduction and Background

- BC1 This Basis for Conclusions summarises the AASB's considerations in reaching its conclusions on this Exposure Draft (ED). It sets out the reasons why the AASB developed the ED, the approach taken to developing the ED and the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.
- BC2 This ED is set out in two distinct, but related, parts.
- BC3 Part A provides guidance for not-for-profit entities on:
- (a) whether particular transactions give rise to 'performance obligations' to customers (that is, promises to transfer goods or services to customers in contracts) and therefore are within the scope of AASB 15 *Revenue from Contracts with Customers* (which was issued in December 2014); and
 - (b) how AASB 15 should be applied to not-for-profit-entity-specific circumstances (see paragraph BC21).

This guidance would be located in AASB 15.

- BC4 Part B principally sets out a replacement of the recognition, measurement and disclosure requirements for income within the scope of AASB 1004 *Contributions*. In addition, as a secondary step, it sets out a replacement of the other requirements of AASB 1004. Transactions and events involving inflows of assets that are outside the scope of AASB 15 (ie do not give rise to performance obligations) and other Australian Accounting Standards (eg AASB 9 *Financial Instruments*) are within the scope of Part B of the ED.

Reasons for Developing the Exposure Draft

- BC5 'Non-reciprocal transfers', which include voluntary transfers of assets (such as donations, and many bequests, grants and appropriations) and compulsory transfers of assets (such as taxes, rates and fines) often dominate the income streams of not-for-profit entities. AASB 1004 *Contributions* applies only to not-for-profit entities and addresses income from non-reciprocal transfers.

- BC6 The AASB conducted a fundamental review of the income recognition requirements of AASB 1004 to address concerns expressed by constituents that, in various circumstances, the Standard's requirements result in premature recognition of income. This concern was particularly expressed in relation to grants, appropriations and other transfers of assets to not-for-profit entities made on the condition that those entities transfer goods or services to nominated parties but which are interpreted as meeting the definition of 'non-reciprocal transfers'. For example, some conditional transfers of assets to not-for-profit entities have been treated as 'non-reciprocal' because goods or services are specified to be provided to the community at large, and therefore have been considered not to result in the not-for-profit entity directly giving approximately equal value in exchange to the other party (or parties) to the transfer. Classification of a transfer of assets to a not-for-profit entity as a 'non-reciprocal transfer' results in immediate recognition of income once control is obtained of the transferred assets.

Previous stages of this project

- BC7 To address concerns expressed by constituents about the income recognition requirements in AASB 1004 and preceding Australian Accounting Standards containing similar income recognition requirements, the AASB previously issued the following EDs for comment:
- (a) ED 125 *Financial Reporting by Local Governments* (October 2003); this ED also addressed other issues;
 - (b) ED 144 *Proposed Guidance to accompany AASB 1004 Contributions* (November 2005);
 - (c) ED 147 *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)* (February 2006); and
 - (d) ED 180 *Income from Non-exchange Transactions (Including Taxes and Transfers)* (June 2009).
- BC8 Paragraphs BC9-BC18 focus on the most recent of those EDs (ie ED 180) and the AASB's subsequent decisions on that ED.

Proposals in ED 180

- BC9 ED 180 was developed jointly by the AASB and the New Zealand Financial Reporting Standards Board (FRSB) [the predecessor to the New Zealand Accounting Standards Board] and issued for comment

as AASB ED 180/FRSB ED 118 in June 2009. The AASB's objective was for that proposed Standard to replace the income recognition requirements of AASB 1004. ED 180 was closely based on International Public Sector Accounting Standard IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

BC10 ED 180 included proposals that responded to the concerns mentioned in paragraph BC6. ED 180 included proposals for the recognition, measurement and disclosure of income in relation to 'non-exchange transactions'. Unlike the income recognition requirements in AASB 1004, the proposals in ED 180 would have required liabilities to be recognised in relation to non-exchange transactions when transferred assets are received on the condition that the recipient entity must:

- (a) consume the future economic benefits embodied in the transferred assets as specified; or, if not,
- (b) return the future economic benefits to the transferor.

BC11 This ED is the result of the AASB's redeliberations of the proposals in ED 180 in light of the comments received on that ED and the subsequent issue of AASB 15. It reflects the AASB's decision not to proceed with the key proposals in ED 180, and instead to propose requiring not-for-profit entities to apply AASB 15 to all of their contracts with customers regardless of whether the contracts might be considered to involve 'non-exchange transactions'.

Comments on ED 180, and the AASB's redeliberations

BC12 The AASB and FRSB received 31 comment letters on ED 180 from Australian and New Zealand respondents. Mixed views were expressed by respondents regarding whether the ED's proposals adequately address the concerns about AASB 1004 mentioned in paragraph BC6. A significant number of respondents expressed concern that:

- (a) ED 180's definition of a 'non-exchange transaction' (namely, a transaction in which "an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange") is ambiguous and difficult to apply in practice; and
- (b) the notion of a liability in ED 180 is too narrow. ED 180 proposed that a liability arises from a non-exchange transaction only when an obligation to consume the future

economic benefits embodied in the transferred assets is accompanied by an obligation to return the future economic benefits if the entity does not consume the economic benefits as specified. Numerous respondents argued that an entity's obligations to consume the future economic benefits embodied in the transferred assets are liabilities regardless of whether they are accompanied by other obligations.

BC13 In view of these concerns, the AASB decided not to proceed with the proposals in the ED.

Alternative Approaches Considered

AASB 120 Accounting for Government Grants and Disclosure of Government Assistance

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

- (a) AASB 120 addresses only government grants and government assistance, and therefore does not address taxes and many other forms of transfers. Income from taxes and transfers other than government grants is more likely to have a material impact on the financial statements of not-for-profit entities than on the financial statements of for-profit entities;
- (b) application of the recognition and presentation requirements in that Standard could result in an entity's assets being materially understated. For example:
 - (i) government grants of non-monetary assets may be measured at a nominal amount;
 - (ii) government grants relating to assets may be deducted in determining the carrying amount of the assets; and
 - (iii) grants are not to be recognised by an entity until there is reasonable assurance that the entity will comply

with the conditions attaching to the grants and the grants will be received (however, conditions attaching to grants are relevant to whether liabilities exist, not to whether assets have been received); and

- (c) AASB 120 focuses on recognition of deferred income, without specifying the nature of obligations to be recognised as liabilities. Thus, it does not distinguish performance obligations and refund obligations, and therefore does not clarify when the conditions attaching to a grant should be considered to have been met.

AASB 15 Revenue from Contracts with Customers

- BC15 Before AASB 15 was issued, not-for-profit entities applied AASB 118 *Revenue* to reciprocal transfers and AASB 1004 to non-reciprocal transfers. In the process of issuing AASB 15, the AASB decided that, consistent with AASB 118, AASB 15 should apply to not-for-profit entities as well as for-profit entities. In this project, the AASB considered whether income from non-reciprocal transfers should continue to be treated differently from revenue from reciprocal transfers. The AASB concluded that, for any entity, a performance obligation (that is, a promise to transfer a good or a service to a customer in a contract) gives rise to a contract liability when the customer pays consideration for the good or service.
- BC16 Consequently, the AASB decided that the principles in AASB 15 on performance obligations should apply to any entity, whether for-profit or not-for-profit, in the private sector or public sector. This is reflected in the proposed replacement Standard for AASB 1004 (Part B of this ED), which contains a scope exclusion for inflows of assets from contracts with customers, to enable not-for-profit entities to apply AASB 15 to all of their contracts with customers.
- BC17 The AASB decided that the only not-for-profit entity modifications of AASB 15 should be the addition of implementation guidance to clarify the application of the principles of AASB 15 in a not-for-profit entity context (see Part A of this ED).
- BC18 The main features of those revenue recognition principles are summarised in the Preface to this ED. Some aspects of those principles are also discussed in paragraphs BC21-BC54.

Scope

Not-for-profit entities

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

Income

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

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

- (ii) other income of not-for-profit entities that is not recognised under another Australian Accounting Standard.

Proposed Australian guidance on implementation of AASB 15 by not-for-profit entities

BC21 Part A of the ED proposes guidance for not-for-profit entities on implementation of AASB 15. This implementation guidance includes:

- (a) guidance in a not-for-profit entity context on when an agreement with another party creates enforceable rights and obligations (see paragraphs BC22-BC25);
- (b) clarification in a not-for-profit entity context of some terminology in AASB 15 that might be misconstrued as not encompassing circumstances of not-for-profit entities (see paragraphs BC26-BC29);
- (c) guidance, in a not-for-profit entity context, on when a promise to transfer a good or a service is specified in sufficient detail to be able to determine when the obligation is satisfied (see paragraphs BC30-BC35); and
- (d) guidance on identifiable donation components of contracts with customers, which this ED proposes should be excluded from the scope of AASB 15 and accounted for in accordance with a replacement Standard for AASB 1004 [Part B of this ED] (see paragraphs BC36-BC51).

Enforceable rights and obligations

BC22 AASB 15 states that a contract is an agreement between two or more parties that creates enforceable rights and obligations. The AASB decided to add not-for-profit entity-specific guidance in paragraphs IG3-IG8 of Appendix E of Part A of the ED to help entities identify whether an agreement creates enforceable rights and obligations. This is because:

- (a) some mechanisms for enforcing a not-for-profit entity's promises to transfer goods or services are unique to entities (typically not-for-profit) in the public sector. For example, Ministerial directives might be employed to compel promised transfers of goods or services by a not-for-profit entity; and

- (b) some agreements between different levels of government might rely on a common purpose, without the transferor funding a programme necessarily having the power to enforce the transferee entity's promises to provide goods or services.

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

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

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

Terminology

- BC26 Often, not-for-profit entities receive assets through grants and other transactions, where those transactions:
- (a) are not described in everyday language as contracts, even though they may be part of agreements that specify in detail the goods or services to be transferred by the recipient of the grant;
 - (b) are not described in everyday language as transactions with ‘customers’;
 - (c) sometimes impose on not-for-profit entities an obligation to transfer goods or services; or
 - (d) sometimes require a not-for-profit entity to provide benefits to third party beneficiaries when they transfer promised goods or services. In these circumstances, views sometimes differ regarding which party or parties should be regarded as the ‘customers’.
- BC27 The AASB concluded that these aspects do not warrant using different terms other than ‘contract’ and ‘customer’, and decided to clarify the use of those terms in a not-for-profit entity context. The AASB’s reasons for that conclusion and its proposed clarifications are discussed in paragraphs BC28-BC29 below.

Contract

- BC28 The AASB notes 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 AASB considers that this definition and guidance are sufficiently broad to address the issues noted in paragraph BC26, and should readily be able to be applied by not-for-profit entities, with the minor clarifications set out in paragraphs IG9 and IG10 of the [draft] Implementation Guidance.

Customer

- BC29 In various contracts with customers in any sector, the customer directs 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. In all contracts with customers, the customer is 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 the for-profit and not-for-profit sectors, the AASB decided to add not-for-profit entity clarification of this principle in paragraph IG11 of the [draft] Implementation Guidance, 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 AASB in its project outreach activities.

Performance Obligations

Sufficiently specific specification

BC30 Some transfers of assets to not-for-profit entities are provided with no, or minimal, specifications regarding how the transferred assets must be used, provided that the assets are used for purposes consistent with the entity's service-delivery objectives as set out in its constitution or enabling legislation (where applicable). For example, a charity may have the discretion to change the goods or services to be provided using donated assets, even when the donations are received in specific-purpose fundraising appeals, to enable the charity to redirect aid to those in greatest need as circumstances change. Some other transfers to not-for-profit entities are provided with a specification only that the funds are to be expended within a specified time period. For these reasons, it can be difficult to distinguish goods or services provided to meet these general specifications from any of the not-for-profit entity's other goods or services provided.

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

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

- (a) noting that applying the 'sufficiently specific' criterion requires judgement; and

- (b) identifying particular conditions to consider in determining whether a promise is ‘sufficiently specific’ to qualify as a performance obligation.

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

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

BC34 For example, the AASB:

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

BC35 One of the aspects to consider in assessing whether a promise is ‘sufficiently specific’ to qualify as a performance obligation is a specified period over which promised goods or services must be transferred (see paragraph IG13(d) of Appendix E). In relation to that aspect, the AASB concluded that a condition that a transfer of assets to a not-for-profit entity relates to a particular time period does not, of itself, meet the ‘sufficiently specific’ criterion—the nature or type of goods or services to be transferred by that entity over that time period must also be specified. This is because time does not require an outflow of resources embodying economic benefits (the definition of a liability in the AASB *Framework for the Preparation and*

Presentation of Financial Statements requires an outflow of resources in settlement of the obligation). Rather, the AASB considers that such a stipulation is, in substance, an indication that the transferor does not intend to make similar future transfers to the entity for a defined period of time.

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

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

Identifiable donation components of contracts with customers

BC37 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 benevolent objectives. The donation represents the amount of consideration that is not attributable to the goods or services promised by the entity to its customer.

BC38 The AASB considers that, to represent faithfully the substantially different components of such a contract of a not-for-profit entity, it is important that the donation component is:

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

the entity transfers the promised good or service to the customer.

However, the AASB considers that accounting separately for the donation component should only occur when that component is separately identifiable: see paragraphs BC46-BC48 for elaboration.

- BC39 The AASB also notes that the treatment in paragraph BC38 of separately identifiable donation components of contracts with customers would, appropriately, cause such donation components to be recognised as income at the same time as that donation would be recognised if it were made to the entity in a stand-alone transaction (ie not as part of a contract with a customer).
- BC40 Consistent with the principle in paragraph BC37, the AASB decided to include not-for-profit-entity-specific Implementation Guidance (in paragraphs IG24-IG30 of Appendix E), stating that the consideration attributable to a separately identifiable donation component is excluded from the transaction price allocated to the performance obligation(s) in the contract.
- BC41 The need for this modification of AASB 15 stems from the fact that a separately identifiable donation component of a contract with a customer seldom occurs in contracts of for-profit entities. Paragraph 12 of the AASB's *Process for Modifying IFRSs for PBE/NFP* states that increased prevalence of a transaction or event for NFPs, as compared with for-profit entities, may require modifications to the relevant IFRS (as incorporated into an Australian Accounting Standard) to ensure user needs are met.
- BC42 The AASB initially explored using a measurement-driven 'residual' approach to identify donation components of contracts with customers. Under that residual approach:
- (a) performance obligations of a not-for-profit entity arising from a particular contract would be measured at the stand-alone selling price for the unit of account for the usual sale of the promised goods or services; and
 - (b) the residual after deducting the measure of the performance obligations in (a) above from the total contract consideration (ie transaction price) would be recognised immediately as donation income.
- BC43 In outreach activities, the AASB received feedback that, under the residual approach it was considering:

- (a) there would be a considerable risk of mistakenly identifying ‘donation’ components in contracts with customers because of measurement error. In various contracts with customers, a measurement difference between the promised consideration and the stand-alone selling prices of the promised goods or services might not reflect the existence of a donation component, but instead could be explained by:
 - (i) information asymmetry or differences in the bargaining power of the contracting parties [this can occur in a contract with a customer of either a for-profit entity or a not-for-profit entity. However, it has no effect on the accounting by a for-profit entity for a contract with a customer. This is because AASB 15 requires a for-profit entity to measure a performance obligation in a contract with a customer at the transaction price, without the potential to identify (and separately account for) a donation component.]; or
 - (ii) variations in the estimated stand-alone selling prices of the promised goods or services that arise because of assumptions or adjustments made to reflect the specific circumstances of the contract with the customer. This is particularly the case because not-for-profit entities often transfer specialised services to customers, for which there is a lack of observable prices charged by other entities for comparable services; and
- (b) the time and cost of estimating the aggregate of the stand-alone selling prices of the promised goods or services separately from the transaction price would often exceed the benefits to users. This time and cost would not arise for for-profit entities applying AASB 15, because they measure the performance obligations in a contract at the transaction price.

BC44 In light of that feedback, the AASB reconsidered using the residual approach to identify donation components of contracts with customers. Instead, the AASB decided that, to identify whether a contract with a customer includes a donation component to be accounted for separately, a not-for-profit entity should make a qualitative assessment, based on the available evidence, of whether the customer intended to provide a donation to the entity.

BC45 If there is no qualitative evidence to suggest an intention of the customer to make a donation, a substantial difference between the amount of promised consideration and the estimated stand-alone

selling prices of the promised goods or services should cause the entity to investigate further whether those stand-alone selling prices have been estimated faithfully or whether there are any other promised goods or services in the contract that were not previously identified. For example, the entity might ultimately conclude that a stand-alone selling price estimated using an adjusted market assessment approach or an expected cost plus a margin approach (see paragraphs 79(a) and (b) of AASB 15) includes adjustments or margins that do not faithfully represent the stand-alone selling price for the good or service that is applicable for the circumstance and class of customer involved. This notion of assessing whether a measurement difference might signal the existence of a donation component is akin to the requirement in paragraph 36 of AASB 3 *Business Combinations* to reassess the identification of all acquired assets and assumed liabilities before recognising a gain on a bargain purchase.

Identifying a separate donation component

BC46 The AASB also decided that a donation would only be accounted for as a separate component of a contract with a customer if the donation is separately identifiable from the goods or services promised in the contract. The AASB notes that, in cases such as those in Illustrative Example 6, a not-for-profit entity might sell goods or services as part of an explicit fundraising drive at a greater margin than a for-profit entity would generate by selling similar goods or services. Buyers of those goods or services are often motivated to do so because of the not-for-profit entity's benevolent objectives. The AASB considered that, in such cases, donation components should not be accounted for separately from the revenue from the sale of the good or service. This is because separating the selling price of the transferred good or service into:

- (a) revenue from transferring the good or service (using an estimate of the price that would be charged if the good or service were not sold as part of a fundraising drive); and
- (b) donation income (for the remainder of the actual selling price)

would not provide useful additional information to treating the actual selling price as the transaction price (that is, the amount of revenue) for the good or service transferred. In addition, estimating the price that would be charged if the good or service were not sold as part of a fundraising drive involves hypothetical assumptions and the risk of measurement error.

- BC47 The AASB's objective is that a donation that a customer intended to make to the entity is only accounted for separately when doing so reflects the substance of the contractual terms, provides useful information to users of the financial statements and provides representationally faithful measures of any donation components. Accordingly, the AASB proposes that a donation that the customer intended to make to the not-for-profit entity as a component of a contract is separately identifiable from the goods or services promised in the contract (and thus accounted for separately) if:
- (a) there is evidence that part of the consideration paid or payable by the customer is not part of the consideration to which the entity expects to be entitled in exchange for the promised good or service;
 - (b) the entity's entitlement to retain the donation is not conditional on that entity transferring a good or service to the customer (donor); and
 - (c) the amount of the donation component can be measured reliably.

BC48 The AASB expects that the criteria in paragraph BC47 would tend to limit separate identification of donation components of contracts with customers to circumstances in which both the existence and amount of the donation are readily apparent. This should reduce greatly the time and cost of accounting for donation components, compared with the time and cost that would be involved in applying the residual approach described in paragraph BC42.

Donation component received in same period as promised goods or services are transferred to a customer

BC49 The AASB considered whether, for cost-benefit reasons, to exempt an entity from having to separately account for identifiable donation components of contracts with customers if the donation is received (or becomes receivable), and the promised goods or services are transferred, during the same period. The AASB noted the argument that such an exemption would limit the cost of accounting for contracts with customers without affecting the amount of income recognised by the entity during the period or the amount of the entity's liabilities recognised at the end of the period.

BC50 However, the AASB decided not to provide such an exemption because dissecting contract income between revenue from transferring goods and services to customers and donations would provide useful information about the extent to which the entity is

dependent on donations to recover its expenses. Revenue from transferring goods and services to customers and donation income might differ in predictability and persistence. In addition, providing such an exemption would be unlikely to foster consistency in how donations are accounted for. This is because the exemption would affect some donation components in contracts with customers, but would not affect transactions wholly composed of donations. Thus, such an exemption would mean that how donations are accounted for would depend, in part, on whether they occur in contracts with customers or in transactions that do not give rise to performance obligations. The AASB considers that, as a general principle, the accounting for a particular economic phenomenon should not depend on how that phenomenon is bundled or unbundled.

Application of materiality

- BC51 The AASB decided to propose that an assessment of whether a donation component of a not-for-profit entity's contract with a customer is material should be made at a contract level, and should not need to be reassessed at another unit of account, such as for a portfolio of similar contracts. The AASB considers that such a treatment would be likely to achieve a better balance of costs and benefits than if the materiality of donation components of a not-for-profit entity's contracts with customers were to be assessed at a portfolio level for similar contracts (see paragraph IG28 of Appendix E).
- BC52 For similar reasons, the AASB considers that, for any transaction wholly composed of a donation in the form of non-cash consideration, an assessment of whether the donation is material should be made at a transaction level, and should not need to be reassessed at another unit of account, such as for a portfolio of similar transactions. For example, if a charity receives multiple donations of used clothing, it would be unlikely that any donation would be individually material. Collectively, all of the donations of clothing might be material. However, measuring the fair value of such donated assets would be difficult and burdensome (as compared with donations in the form of cash consideration), and the resulting costs would be unlikely to be exceeded by the benefits to users of financial statements (ie the revenue from such donations would be recognised when the items of clothing are sold, except if the entity were to elect to recognise the donated clothing upon receipt). Therefore, the materiality of the donations of clothing should not be required to be reassessed at a 'portfolio' level.

Onerous contracts

- BC53 Some not-for-profit entities enter enforceable agreements for the provision of specified services (ie contracts with customers), where a grantor pays a subsidy in advance for services to be partly paid for by service recipients. The subsidy is refundable if the services are not provided. Feedback from outreach activities included a concern that applying the proposed implementation guidance for AASB 15 set out in Part A of this ED might prompt a not-for-profit entity to identify a provision for an onerous contract as well as a contract liability in relation to a prepaid subsidy of future services. That is, concern was expressed to the AASB that a provision for an onerous contract might need to be recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, even if the total consideration (from the grantor) for providing the service is expected to equal or exceed the cost. This is because providing services as directed by the grantor involves costs the entity is not yet entitled to be compensated for (ie when it receives the advance subsidy, the entity does not control consideration, who are not a party to the entity's contract with the grantor). AASB 137 defines an onerous contract as: "a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it" (paragraph 10).
- BC54 An example of a prepaid partial subsidy of a service is where a public rail authority is subsidised to provide rail services to commuters for a ticket price that is less than the cost of the service. The not-for-profit entity might previously have treated the subsidy as a non-reciprocal transfer to be recognised as income immediately, in accordance with AASB 1004, based on a view that it is not obliged to directly give approximately equal value in exchange to the grantor. Under that treatment, a contract liability would not be recognised in relation to the subsidy. The AASB concluded that, in relation to this example:
- (a) the arrangement with the grantor should be accounted for separately from each agreement (ie ticket sale) with a service recipient. Although the subsidy is paid in advance, economically it is the same as a reimbursement. AASB 137 requires reimbursements to be recognised as a separate asset (ie accounted for separately from obligations to other parties);
 - (b) until service recipients enter a binding agreement with the not-for-profit entity, that entity does not have an obligation to provide the service to them, notwithstanding having received a subsidy;

- (c) therefore, the amount of the grant should be recognised as a performance obligation to be extinguished by the provision of services in subsequent agreements (ie ticket sales), at which time an equivalent amount of revenue would be recognised;
- (d) the treatment in (c), which does not identify the grant as giving rise to an ‘onerous’ contract, is supported by the fact that, if the subsequent agreements were not entered into, the entity would be obliged to return no more than the amount of the grant—it would not be obliged to render services to the grantor at a potentially higher cost; and
- (e) each agreement with a service recipient (ie commuter) would be loss-making (onerous), but each such loss would be accompanied by a ‘gain’ (revenue) from derecognising the related grant obligation (consistent with the grant compensating the entity for entering onerous agreements with service recipients).

BC55 The AASB decided not to include guidance on this issue in either the Implementation Guidance for AASB 15 or in AASB 10XX because:

- (a) agreements in which different parties pay collectively for a specified good or service are not confined to not-for-profit entities (eg patients and medical insurance funds can pay jointly for medical services rendered by a for-profit hospital); and
- (b) the requirements for onerous contracts are set out in AASB 137, which does not contain any not-for-profit entity modifications of the corresponding IFRS. In addition, the AASB has not received requests for not-for-profit-entity-specific guidance on AASB 137.

Proposed AASB 10XX *Income of Not-for-Profit Entities*

BC56 Paragraphs BC56-BC103 discuss the AASB’s reasons for its conclusions on specific aspects of the proposed Australian Accounting Standard set out as Part B of the ED. The AASB’s principal objective of [draft] AASB 10XX is to replace the income recognition requirements of AASB 1004. The ED also reflects the AASB’s consideration of whether the other requirements of AASB 1004 should be carried forward, amended or withdrawn. Those other considerations are discussed in paragraphs BC84-BC104.

Guidance on obtaining control of an asset

- BC57 Part B of the ED (paragraph 10) states that not-for-profit entities shall recognise an asset transferred to it when the entity obtains control of the asset, subject to that asset meeting the recognition criteria for an asset. This proposed requirement does not apply to assets within the scope of income recognition requirements of another Australian Accounting Standard.
- BC58 This proposed requirement is consistent with AASB 1004. Part B of the ED carries forward and updates guidance in AASB 1004 on when control of an asset is obtained by a not-for-profit entity. Some of that guidance in AASB 1004 was not carried forward because it is unnecessary in a principles-based Standard, particularly in view of not-for-profit entities having lengthy experience with applying the 'control' principle since AASB 1004 was first developed. In addition, most of the guidance on control in Part B of the ED is set out as application guidance in Appendix B thereof. This structure is designed to help readers identify the key requirements of the ED.

Control of a bequeathed item

- BC59 Paragraph AG10(a) of Part B of the ED states that control of an item bequeathed to the entity is obtained when probate has been granted and, depending on the facts and circumstances, either the period for challenging the Last Will and Testament (Will) has expired or the Will has been challenged and it is legally determined that the entity is entitled to particular assets or amounts. The AASB noted that some argue that control of a bequeathed item is obtained upon the death of the deceased person who made the Will. They express this view on the basis that the entity has a privileged position of being named as a beneficiary in a Will. However, the AASB noted that:
- (a) the asset to account for is a receivable. This is a different asset from the intangible benefit that an entity has of being named as a beneficiary in a Will (such benefit exists before the death of the testator). Recognition of such intangible benefits would involve a broader view of intangible assets than that reflected in AASB 138, and it is unclear whether the benefits of their recognition would exceed the related costs (see also (c) below);
 - (b) until no other party holds a right to challenge the Will, the entity does not have an enforceable right to receive the bequeathed items; and

- (c) requiring entities to recognise bequeathed items before probate has been granted would impose an obligation to account for inflows of assets that an entity might be unaware of. In addition, requiring recognition of inflows of assets that might be challenged by another party would impose unnecessary costs. In relation to views of some that bequeathed items should be recognised before the entity has an enforceable claim to those items, the AASB considers that, in view of:
- (i) the irregular nature of bequests; and
 - (ii) the fact that not-for-profit entities generally would not rely on bequests as a source of recovery of the costs of the goods and services they provide to beneficiaries,

waiting until the entity has an indisputable claim to those assets before recognising bequeathed items is appropriate to ensure the benefits of providing that information exceed the related costs.

Volunteer services

BC60 Paragraph 19 of Part B of the ED proposes requiring local governments, government departments, general government sectors (GGSs) and whole of governments to recognise volunteer services as income if:

- (a) the fair value of those services can be measured reliably; and
- (b) the services would have been purchased if they had not been donated.

BC61 These criteria for mandatory recognition of volunteer services, and the entities to which they apply, are unchanged from paragraph 44 of AASB 1004. The AASB decided to retain these aspects in [draft] AASB 10XX because it was concerned that a wide-ranging review of the recognition requirements for volunteer services could take significant time and potentially delay the completion of this project to replace the income recognition requirements of AASB 1004.

BC62 Because AASB 1004 does not specifically indicate the circumstances in which not-for-profit entities other than those mentioned in paragraph BC60 must, or can, recognise volunteer services, it effectively allows those other not-for-profit entities to elect to recognise volunteer services that meet both of the criteria in

paragraph BC60. The ED proposes clarifying that not-for-profit entities may elect to recognise volunteer services if the fair value of those services can be measured reliably. That is, the criterion in paragraph BC60(b) for mandatory recognition of volunteer services would not be a pre-requisite for optional recognition of volunteer services. This pre-requisite in AASB 1004 was primarily focused on limiting the scope of volunteer services for which recognition (by particular public sector not-for-profit entities) is required. The AASB considers that not-for-profit entities should be able to elect to recognise volunteer services with a fair value that can be measured reliably even if those services would not have been purchased if they had not been donated.

- BC63 Carrying forward the treatment of volunteer services from AASB 1004 almost unchanged would retain an inconsistency between private sector and public sector not-for-profit entities regarding the scope of the recognition requirements for volunteer services. That inconsistency reflects the transfer of recognition requirements for volunteer services to AASB 1004 upon the withdrawal of Australian Accounting Standards for specific types of public sector entity (namely, AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*) in 2007, rather than a difference in information needs of users of financial statements of not-for-profit entities in the private and public sectors.
- BC64 Accordingly, whilst the AASB does not plan a fundamental review of the recognition requirements for volunteer services presently contained in AASB 1004, this ED requests comments on whether the requirements (if any) for the recognition of volunteer services should be the same for all not-for-profit entities, regardless of whether they operate in the public or private sector.

Donations by vendors and lessors

- BC65 The AASB considers that assets and liabilities of not-for-profit entities arising from transactions and other events within the scope of [draft] AASB 10XX should initially be measured in accordance with the measurement requirements of any other Standard applying to that class of assets or liabilities (for example, AASB 9, AASB 15 or AASB 116 *Property, Plant and Equipment*) because there is not a not-for-profit-entity-specific reason to depart from those measurement requirements. This view is reflected in the proposed general exclusion of inflows of assets recognised as income in accordance with another Australian Accounting Standard from the scope of Part B of the ED (see paragraph 7 of Part B).

- BC66 However, the ED proposes a requirement that, if a vendor, in a transaction in which a not-for-profit entity acquires an asset, or a lessor, in a finance lease entered by a not-for-profit entity, makes a donation in the sale or lease contract, the not-for-profit entity must measure the cost of the asset at fair value (see paragraph 26 of Part B).
- BC67 This proposal would extend the scope of the corresponding requirement in various Australian Accounting Standards. Presently, AASB 102 *Inventories*, AASB 116, AASB 138 *Intangible Assets*, AASB 140 *Investment Property* and AASB 141 *Agriculture* include not-for-profit entity modifications specifying that the cost of an asset is measured at its fair value (or current replacement cost, in relation to inventories) as at the date of acquisition if the asset was acquired at no cost or for nominal consideration.
- BC68 The proposal mentioned in paragraph BC66 would broaden the requirement for not-for-profit entities referred to in paragraph BC67 in the following ways:
- (a) it would not be restricted to assets within the scope of the Standards mentioned in paragraph BC67;
 - (b) it would be extended to cover finance lease assets of lessees (and, consequently, finance lease liabilities): see paragraphs BC70-BC71; and
 - (c) it would not be limited to acquisitions of assets at no cost or for nominal consideration: see paragraph BC72.
- BC69 In addition, the principle that the cost of a non-financial asset should be measured at fair value when a vendor, or lessor in a finance lease, provides a donation in the sale or lease contract would be set out in one Standard (ie AASB 10XX), with cross-references to that principle contained in Standards applying to particular classes of asset (see the proposed consequential amendments to AASB 102, AASB 116, AASB 138, AASB 140 and AASB 141 in Appendix D to Part B of the ED).
- BC70 Donations are frequently made by lessors to not-for-profit entity lessees in finance leases. In respect of such a lease, [draft] AASB 10XX requires the lease asset and lease liability to initially be measured at the fair value of the leased property at the inception of the lease. This would modify, for not-for-profit entities, the requirement in paragraph 20 of AASB 117 *Leases* that lessees shall recognise finance leases as assets and liabilities at amounts equal to the lower of the fair value of the leased property and the present value

of the minimum lease payments, each determined at the inception of the lease. If a lessor makes a donation to a lessee that is a not-for-profit entity by specifying below-market amounts of minimum lease payments, initially measuring the lease asset and lease liability at the present value of the minimum lease payments would understate the asset and liability and omit to recognise the donation. This proposed modification of paragraph 20 of AASB 117 for not-for-profit entities (see the proposed consequential amendment to AASB 117 in Appendix D to Part B of the ED) would achieve consistency with the Standards referred to in paragraph BC67.

- BC71 This not-for-profit entity modification of paragraph 20 of AASB 117 would not affect the requirement that any initial direct costs of the lessee are added to the amount recognised as a lease asset. Initial direct costs are unrelated to any donation made by the lessor. Accordingly, the AASB considers that, under its policy of transaction neutrality, initial direct costs of a lessee should be treated consistently by for-profit entities and not-for-profit entities.
- BC72 The AASB considers that the present limitation on the use of fair value to measure cost (ie when the assets are acquired at no cost or for nominal consideration) is too narrow, for the following reasons:
- (a) significant donations made by vendors are not recognised when the consideration paid by the entity is greater than nominal;
 - (b) as a consequence of (a), donations are treated inconsistently; and
 - (c) the different treatment of donations, according to whether consideration is greater than ‘nominal’, means it is important to identify when consideration is ‘nominal’; however, that term is undefined and its application may require subjective assessments.
- BC73 The proposal mentioned in paragraph BC66 would achieve consistency with the requirement in paragraph 66 of AASB 15 that, to determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value. When a not-for-profit entity acquires a non-cash (or other non-financial) asset in a transaction including a donation by the vendor, the vendor is not a customer of the not-for-profit entity – accordingly, such transactions are outside the scope of AASB 15.

Donations arising on inception of financial instruments

- BC74 Donations arising on inception of financial instruments are identified and recognised in accordance with AASB 9.
- BC75 In relation to such donations, the AASB considered whether a not-for-profit-entity-specific modification of the requirements in AASB 9 for identifying when to recognise a ‘day one’ gain or loss at initial recognition of a financial asset or a financial liability is warranted. An example of such a circumstance is when a loan is received at an off-market interest rate (ie the transaction price of a financial asset or a financial liability at initial recognition differs from the fair value of that financial asset or financial liability). The possible need for a not-for-profit-entity-specific modification was raised in the context of paragraph B5.1.2A of AASB 9, which states that ‘day one’ gains/losses at initial recognition of financial assets and financial liabilities arising from differences between the transaction price and fair value would only be recognised when the fair value is based on a Level 1 input or data from observable markets. Various financial instruments held or owed by some not-for-profit entities do not possess a fair value based on data from observable markets.
- BC76 The AASB noted that paragraph B5.1.1 of AASB 9 is the relevant paragraph for identifying a donation arising in relation to a financial instrument, and this paragraph does not refer to an evidence threshold for measuring a financial instrument at a different amount than transaction price (plus or minus transaction costs) at initial recognition. Paragraph B5.1.1 of AASB 9 states that:
- “The fair value of a financial instrument at initial recognition is normally the transaction price However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument.”
- BC77 Accordingly, the AASB concluded it is unnecessary to propose a modification of AASB 9 to enable faithful representation of donations arising in relation to financial instruments held or owed by not-for-profit entities.

Measurement of taxation income

- BC78 The AASB considered whether taxation income should be measured consistently with the draft revised International Monetary Fund (IMF) Government Financial Statistics (GFS) Manual, which states that the amount of tax revenue recognised by a taxing entity excludes

amounts assessed but deemed uncollectable due to non-compliance with tax laws or insolvency of taxpayers.

BC79 Although tax receivables are not financial assets (because they do not arise in contracts) and are outside the scope of AASB 9, the AASB concluded that tax receivables should initially be measured consistently with the measurement principles of AASB 9. In particular, in applying those measurement principles, taxation income and any impairment losses on tax receivables are recognised and measured on a ‘gross’ basis. The AASB supports this treatment because it considers that:

- (a) impairments of tax receivables (eg losses arising from taxpayers becoming bankrupt or from decisions not to further pursue uncollected amounts that individually are relatively minor) should be separately recognised as expenses, instead of netting those impairments against the tax income arising from the creation of those receivables. This treatment would provide useful information to users of financial statements for assessing the taxing entity’s future cash flows, because uncollectibility of a receivable is a separate economic event from a taxable event, the consequences of which are determined by the taxation law; and
- (b) the only not-for-profit-entity-specific reason for departing from the treatment of impairments of receivables by for-profit entities is to foster greater GAAP/GFS harmonisation.

BC80 Consequently, paragraphs AG20-AG21 of [draft] AASB 10XX (Part B of the ED) state, in effect, that a not-for-profit entity shall recognise and measure taxation income and any impairment losses on tax receivables on a ‘gross’ basis, consistent with the approach in AASB 15 to the measurement of revenue from contracts with customers and of any impairment losses on amounts receivable from customers.

BC81 Specifically, Part B of the ED proposes that:

- (a) tax receivables are measured on initial recognition at fair value plus, in the case of receivables not at fair value through profit or loss, any transaction costs directly attributable to their acquisition—consistent with paragraph 5.1.1 of AASB 9;
- (b) the taxation income arising from a taxable event occurring is measured at the amount to which the entity expects to be entitled as a result of that event occurring—consistent with

paragraphs 46-47 of AASB 15, albeit that AASB 15 refers to the amount of revenue recognised when an entity satisfies a performance obligation to a customer; and

- (c) any difference between the measurement of the tax receivable in accordance with (a) and the corresponding amount of income recognised in accordance with (b) is presented as an expense—consistent with paragraph 108 of AASB 15.

BC82 The AASB considered whether amounts of tax relief that enter directly into the calculation of a taxpayer's tax liability (including tax allowances, exemptions and deductions, and 'non-payable tax credits') should be treated as reductions in income (ie foregone income) or as expenses. The AASB noted that such tax relief is significantly different from impairments of tax receivables. Such tax relief affects the amount of the taxing entity's claim against a taxpayer. Therefore, the AASB concluded that such tax relief should be treated as reductions in income (ie foregone income), rather than expenses (see paragraph AG26 of Part B of the ED). This is consistent with measuring taxation income at the amount to which the taxing entity expects to be entitled as a result of the taxable event occurring [paragraph BC85(b) refers], rather than at the notional amount of taxation income that would have been received or receivable without any tax relief being granted.

BC83 Paragraph AG21 of Part B of the ED proposes that any impairment losses recognised on tax receivables are presented as expenses (rather than deducted from taxation income)—consistent with paragraph 107 of AASB 15.

Status of requirements in AASB 1004 other than those dealing with income recognition

Contributions by owners

BC84 Consistent with the definition of income in the AASB Conceptual Framework, [draft] AASB 10XX (Part B of the ED) states that income excludes inflows of economic benefits that are contributions by owners acting in their capacity as owners (termed 'contributions by owners' in Australian Accounting Standards).

BC85 The AASB is seeking views on whether a definition of 'contributions by owners', which applies only to not-for-profit entities under AASB 1004, is still necessary or appropriate in Australian Accounting Standards. The proposed replacement Standard for AASB 1004 (ie [draft] AASB 10XX) included in this omnibus

Exposure Draft excludes the definition and discussion of ‘contributions by owners’ presently contained in AASB 1004 and the IPSASB’s Public Sector Conceptual Framework. Background to this issue is provided below.

BC86 Consistent with the definition of income in the Conceptual Frameworks of both the AASB and IASB, the [draft] replacement Standard for AASB 1004 states that income excludes increases in economic benefits relating to contributions from equity participants (termed ‘contributions by owners’ in Australian Accounting Standards). However, unlike Australian Accounting Standards, there is no definition of ‘contributions by owners’ or equivalent term in International Financial Reporting Standards (IFRSs).

BC87 AASB 1004 defines ‘contributions by owners’ as:

“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:

- (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.”

BC88 The AASB has received comments that some transfers of assets to not-for-profit entities that, in substance, are equity contributions fail to meet the definition of ‘contributions by owners’ in AASB 1004 and therefore are required to be included in comprehensive income. For example, some have commented that, in practice, in-substance equity contributions are being classified as income when the entity does not issue equity instruments in return. Others have commented that, in some circumstances, the definition effectively (and inappropriately) adopts the viewpoint of the contributor rather than the entity. For example, if a not-for-profit entity receives a non-reciprocal transfer of an asset and the contributor neither received an equity instrument in return nor entered a formal agreement establishing the equity nature of the transfer, classification of the transfer as either a contribution by owners or income would depend on whether the contributor designated the transfer as a contributions by owners. In that circumstance, although the transfer might be an equity contribution from the entity’s viewpoint, its classification

would depend on whether the contributor has designated the transfer as a contribution by owners.

BC89 In view of these concerns and the absence of a definition of ‘contributions from owners’ in IFRSs, the AASB is reviewing, as part of this Exposure Draft, whether ‘contributions from owners’ should continue to be defined in Australian Accounting Standards and, if so, whether the existing definition should be retained or modified. The AASB observes that, in October 2014, the IPSASB issued its Public Sector Conceptual Framework, which includes a less restrictive definition of ‘ownership contributions’ than that in AASB 1004. The IPSASB defines ‘ownership contributions’ as:

“Inflows of resources 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”.

BC90 If adopted in Australian Accounting Standards, the IPSASB definition may overcome the concern that in-substance equity contributions are being classified, inappropriately, as income. However, an issue would remain of why Australian Accounting Standards should include a definition of ‘ownership contributions’ for not-for-profit entities when none applies to Australian for-profit entities.

BC91 The AASB also notes that the implications of removing the definition of ‘contributions from owners’ presently in AASB 1004 include:

- (a) fewer transfers to not-for-profit entities by their owners would be classified as revenue, or other income, instead of as equity contributions. Classification of a transfer from owners as revenue or other income would only occur when the transfer:
 - (i) is on consistent terms and conditions as transfers from non-owner sources;
 - (ii) occurs in connection with contracts for the transfer of goods or services to customers; or
 - (iii) is provided to finance the entity’s operating activities for the current period [eg an appropriation to a government department that finances the department’s operating activities would be treated as income; a capital appropriation (which enhances the department’s capacity to transfer services) would be treated as a contribution by owners]; and

- (b) there might not be a need to carry forward the guidance on restructures of administrative arrangements presently set out in paragraphs 54-59 of AASB 1004. This is because it would be clear, in the absence of the definition of ‘contributions from owners’, that such restructures are equity transfers. Removing the guidance on restructures of administrative arrangements:
 - (i) would be consistent with the exclusion of combinations of entities or businesses under common control from the scope of AASB 3 *Business Combinations*; and
 - (ii) would not result in a reduction in guidance on how assets and liabilities transferred between entities as part of a restructure of administrative arrangements should be measured. It is implicit in AASB 1004 that those assets and liabilities do not need to be remeasured as at the date of the restructure.

AASB Interpretation 1038

BC92 The definition of ‘contributions by owners’ is also used in AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*, which applies to public sector entities (whether for-profit or not-for-profit) and provides criteria for determining whether a transfer is a ‘contribution by owners’. The AASB has received feedback that a for-profit entity in the public sector that applies AASB Interpretation 1038 may be unable to make an unreserved statement of compliance with IFRSs, which would be an outcome that conflicts with the AASB’s policy of transaction neutrality. For example, under that Interpretation, depending on the relevant facts and circumstances, to treat a transfer to a public sector entity as a contribution by owners, it may be necessary for the transferor to formally designate the transfer as forming part of contributed equity before or at the time of the transfer; however, such a criterion does not exist in IFRSs.

BC93 If the AASB were to remove the definition of ‘contributions by owners’ from Australian Accounting Standards, it would seem logical to also withdraw AASB Interpretation 1038. In addition, the development of AASB Interpretation 1038 responded to difficulties and uncertainty in applying the definition of ‘contributions by owners’ in AASB 1004. Since AASB Interpretation 1038 was initially developed (in 2000), a better understanding of equity as a residual has developed in the public sector—therefore, guidance on

contribution by owners in the public sector may no longer be necessary.

- BC94 However, AASB Interpretation 1038 also includes guidance that when transfers are made between public sector entities controlled by the same parent (government), the parent should be treated as a party to the transfer (by treating the parent as an interposed entity).

Distributions to owners

- BC95 Paragraph 49 of AASB 1004 states that:

“Distributions to owners shall be recognised as a direct adjustment to equity when the associated reduction in assets, rendering of services or increase in liabilities qualifies for recognition.”

- BC96 Paragraph 53 of AASB 1004 elaborates briefly on that requirement, and notes that distributions to owners can either be dividends or returns of capital. AASB 1004 does not define ‘distributions to owners’.

- BC97 The AASB considers that, if the guidance on contributions by owners in AASB 1004 were to be omitted from Australian Accounting Standards, it would be logical to also omit the guidance on distributions to owners. The AASB observes that AASB 1004 does not provide significant guidance on distributions to owners that is additional to the principle in paragraph 70(b) of the AASB *Framework for the Preparation and Presentation of Financial Statements* that expenses exclude distributions to equity participants.

Liabilities of government departments assumed by other entities

- BC98 Paragraphs 39-43 of AASB 1004 specify how a government department accounts for the incurrence and assumption of liabilities that are assumed by another entity. A key aspect of those requirements is that the treatment of such an assumption depends on whether the assumption is a contribution by an owner.
- BC99 The AASB considers that, if the guidance on contributions by owners in AASB 1004 were to be omitted from Australian Accounting Standards, it would be logical to also omit the requirements in paragraph 39-43 of AASB 1004 on liabilities that are assumed by another entity.

Compliance with parliamentary appropriations and other authorities for expenditure

- BC100 The AASB decided to propose for [draft] AASB 10XX an amended version of the disclosure requirements presently in paragraph 64 of AASB 1004. These disclosure requirements apply to government departments and relate to the amounts appropriated or otherwise authorised for a government department's use, and whether the government department's expenditures were as authorised.
- BC101 The AASB considered whether to relocate those disclosure requirements to AASB 1054 *Australian Additional Disclosures*, in order to limit the scope of [draft] AASB 10XX to requirements for the recognition, measurement and disclosure of income of not-for-profit entities. However, the AASB concluded it would be more user-friendly to locate the disclosure requirements regarding compliance by government departments with parliamentary appropriations in [draft] AASB 10XX because of the nexus between amounts appropriated and amounts of income of government departments as a consequence of appropriations.
- BC102 The main amendment to paragraph 64 of AASB 1004 proposed in this Exposure Draft is the omission of part (e) of that paragraph. Paragraph 64(e) requires separate disclosure of the nature and probable financial effect of any non-compliance by the government department with externally-imposed requirements for the period, other than any non-compliance reflected in material variances between amounts appropriated and amounts expended, where the non-compliance is relevant to assessments of the government department's performance, financial position or financing and investing activities. The AASB proposes omitting that disclosure requirement from AASB 10XX in response to concerns expressed that it is unclear which circumstances would fall within its scope, because it does not deal with material variances between amounts appropriated and amounts expended. The AASB notes that non-compliances unrelated to parliamentary appropriations can occur; however, it also considers that disclosure requirements should not be retained when the circumstances in which they would apply are inherently unclear.
- BC103 As a consequence of the omission of paragraph 64(e) from the disclosure requirements in [draft] AASB 10XX, the AASB decided to propose extending the disclosure requirement presently in paragraph 64(d) of AASB 1004 to also include disclosure of any financial consequences for the government department of an unauthorised expenditure.

BC104 In light of recent changes in public sector financial management arrangements, the AASB decided to propose extending the scope of these disclosure requirements about the amounts appropriated or otherwise authorised for a government department's use, to also include other public sector entities that obtain part or all of their spending authority from parliamentary appropriations.

Transition to [draft] AASB 10XX

General transitional provisions

BC105 The AASB considered whether the transitional provisions for initial application of [draft] AASB 10XX should be generally consistent with the transitional provisions in AASB 15. The AASB concluded that there are no apparent not-for-profit-entity-specific reasons to depart from the general features of the transitional provisions in AASB 15. When an entity applies AASB 15, or a not-for-profit entity initially applies [draft] AASB 10XX, it will have contracts with customers and other agreements that are incomplete. In relation to contracts with customers and other agreements, retrospective application:

- (a) avoids omitting any assets and liabilities that have arisen in periods preceding initial application;
- (b) ensures that all assets and liabilities in contracts with customers and other agreements are recognised and measured consistently in both the period of initial application and in comparative period(s) presented, regardless of whether those contracts or other agreements were entered into before or after the requirements became effective; and
- (c) provides users of financial statements with useful trend information across the period of initial application and comparative period(s) presented.

BC106 Whilst this Basis for Conclusions focuses on the transitional provisions for initial application of [draft] AASB 10XX, it also notes considerations underpinning the transitional provisions for AASB 15, to emphasise the similarity of the considerations for both Standards.

BC107 Based on its considerations set out in paragraph BC104, the AASB decided to propose that a not-for-profit entity shall apply [draft] AASB 10XX using one of the following two methods:

- (a) retrospectively to each prior reporting period presented in accordance with AASB 108; or

- (b) retrospectively with the cumulative effect of initially applying the [draft] Standard recognised at the date of initial application.

BC108 A difference between the transitional provisions in AASB 15 and [draft] AASB 10XX is that only AASB 15 includes practical expedients for retrospective application of its requirements. Those practical expedients were excluded from [draft] AASB 10XX because they are inapplicable to [draft] AASB 10XX, since they relate to contract balances (which do not arise under [draft] AASB 10XX).

Remeasuring the cost of assets acquired before the period of initial application of [draft] AASB 10XX

BC109 The AASB considered whether, to help minimise the cost of transition to [draft] AASB 10XX, not-for-profit entities should be provided an option, on initial application, not to retrospectively remeasure the cost of an asset acquired by a not-for-profit entity when the vendor makes a donation or is levied a tax. Retrospective application of a changed accounting policy, except when retrospective application is impracticable, is the default treatment of changes in accounting policy under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC110 The AASB decided to propose mandatory retrospective remeasurement on initial application, because of the importance of excluding donations from the measurement of the cost of assets (including finance lease assets). The AASB noted that, if an asset were acquired by a not-for-profit entity and retrospective remeasurement were not required, the asset's cost would be significantly understated in the statement of financial position and the consumption of that cost (eg depreciation of an item of property, plant and equipment) would be significantly understated in the statement of profit or loss and other comprehensive income. In the case of wholly donated assets, an option not to retrospectively remeasure an asset on initial recognition would result in non-recognition of both the asset and the subsequent consumption of its economic benefits.

Accounting by Transferors

BC111 The AASB considered requests from some constituents that [draft] AASB 10XX addresses accounting by transferors in relation to transfers (such as grants) made to not-for-profit entities. Some constituents argued that treatment of transfers by transferors and transferees should be symmetric (for example, the transferor should

recognise an expense simultaneously with the transferee recognising income, in respect of a transfer), and commented that sometimes the treatment of particular transfers by transferors and transferees seems inconsistent.

BC112 The AASB decided not to address this issue in [draft] AASB 10XX because:

- (a) it considers there is an urgent need to replace the general requirements for income recognition in AASB 1004, particularly since the AASB issued AASB 15 in December 2014. The AASB aims to address not-for-profit entity-specific requirements for a topic as promptly as possible when new requirements incorporating an IFRS for a similar topic have been issued;
- (b) in view of the AASB's decision that AASB 15 should be applicable to for-profit and not-for-profit entities, and the role of this project to determine which not-for-profit-entity-specific modifications (if any) are appropriate, it is important that this project is completed in time for such modifications to have the same initial application date as the initial application date for AASB 15 (which is for annual reporting periods beginning on or after 1 January 2017); and
- (c) broadening the scope of this [draft] Standard to address transferor accounting would raise issues not addressed in IFRS 15 *Revenue from Contracts with Customers*, and therefore would be likely to delay the issuance of the corresponding Australian Accounting Standard affecting not-for-profit entities. This would undermine the achievement of the AASB's aim in (b) above.