



Accounting Standards Board

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The Chair

Australian Accounting Standards Board

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Per e-mail

14 August 2015

Chairman of the AASB

**COMMENTS ON ED 260 *INCOME OF NOT-FOR-PROFIT ENTITIES***

The South African Accounting Standards Board (ASB), sets accounting standards for the public sector in South Africa. These accounting standards are drawn from International Public Sector Accounting Standards (IPSASs).

The Secretariat of the ASB has reviewed ED 260 and is pleased to have had the opportunity to participate in your due process.

Overall, we are supportive of the general direction of the AASB to move away from differentiating revenue recognition on the basis of reciprocal or non-reciprocal transactions. As adopters of Standards based on IPSASs, we have experienced significant practical challenges in distinguishing revenue transactions as either exchange or non-exchange. The distinction has often times been subjective, and has required a high degree of judgement to be applied in instances. The effect is that some revenue types are being treated inconsistently by entities and has diminished comparability. As a result, we support the proposal to differentiate transactions based on their economic substance as this allows a more principles-based approach to be applied.

Our detailed responses to the specific matters for comment are outlined in Annexure A of this letter. We did however not respond to questions 6 to 13 as we believe they require better insight into the Australian environment. Comments on other aspects of the ED are outlined in Annexure B.

Board Members: Ms T Coetzer, Mr B Colyvas, Ms I Lubbe, Mr M Kunene, Mr K Makwetu,  
Mr V Ndzimande, Ms N Ranchod, Ms R Rasikhinya, Mr M Sass, Ms C Wurayayi  
Alternates: Mr S Badat, Ms L Bodewig  
Chief Executive Officer: Ms E Swart



We hope that you find our comments useful, and if you would like to discuss any of the matters further or require any clarification, please feel free to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read "Poggiolini". The signature is written in a cursive, flowing style with some loops and flourishes.

Jeanine Poggiolini

Technical Director

## ANNEXURE A – RESPONSES TO SPECIFIC MATTERS FOR COMMENT

### Specific Matters for Comment

The AASB would particularly value comments on the following:

#### Question 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.

#### Response

##### *Agreement with proposed change*

As noted in our introductory comments, we support the proposal to replace the notion of revenue recognition based on whether a transaction is reciprocal or non-reciprocal, with a distinction based on whether a transaction includes a performance obligation. We are of the view that this approach is less subjective and will result in more consistent accounting treatments being applied by entities.

Although we believe there is less subjectivity in using this approach, there may however still be instances when judgement may need to be applied to assess if a performance obligation exists. An example in our local context that may still require a high degree of judgement is as follows:

An individual or entity is required to pay fees to particular public sector entities to undertake a specific activity (i.e. the entity is, or acts in a similar way to, a regulator). Sometimes the fees include some benefit being provided to the individual or entity, e.g. the audit and health profession regulators provide "membership services" to auditors and healthcare professionals registered with them. They do however also provide "inspectorate" and "monitoring" type services which they undertake in the public interest, which enhances the credibility of the profession generally rather than any specific individual or entity.

In these instances, it may be difficult to identify whether, or if, a clear performance obligation exists for the various services provided. It is also difficult in the context of an IFRS 15 *Revenue from Contracts with Customers* approach to identify whether a good or a service is being provided, e.g. a license to operate or undertake a specific activity, membership and other services, or a combination.

##### *Proposal that may enhance information provided to users*

While it is not impossible to draw specific conclusions on the most appropriate accounting treatment of these fees, it would still require entities to apply judgement. It would therefore be useful if entities disclose information about the judgements applied in assessing whether a performance obligation exists or not.

IFRS 15 requires fairly extensive disclosures about the performance obligations that exist in contracts, but it may be appropriate to propose disclosure requirements in AASB10XX on “Income of Not-for-Profit Entities” about any significant judgements that have been applied to assess that no performance obligations exist.

In instances where significant judgement has been applied, it may assist users of similar entities financial statements to understand any differences that may exist, and may assist with comparability.

## Question 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-entity has a performance obligation? Please provide your reasons.

## Response

### *Agreement with proposal*

We agree that for a performance obligation to exist, it must be sufficiently specific.

### *Possible amendments to criteria to assess if performance obligation is “sufficiently specific”*

While we agree with the list of indicators in paragraph IG 13, we believe it might be useful to consider the following:

- Paragraph IG 13(c) refers to “quantity” of the goods or services to be provided in the arrangement. It might also be appropriate to refer to the “quality” of the goods or services to be provided as the other party with whom the entity is contracting most likely wants to provide a specific quality or type of good or service, or wants to achieve a specific result.
- IG 15 indicates that a condition to provide unspecified goods or services in a particular period is insufficient to conclude that a performance obligation exists. The list in paragraph IG 13 indicates “or” before (d) which discusses the period over which goods or services are provided. The inclusion of “or” makes it seem as though an entity could meet only (d) and still conclude that the performance obligation is sufficiently specific. Although IG 14 does clarify that an entity need not meet a specific number of criteria in IG 13, we believe that if the “or” is retained before (d), it may conflict with the intention of IG 14 and IG 15. We would propose deleting (d) from IG 13 so that it is consistent with the paragraphs that follow.

## Question 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?

## **Response**

### *Agreement with proposal*

We agree with the proposal that entities should be required to recognise any donation components when the conditions outlined in IG 21 are present. We particularly support the AASB's rationale for rejecting a "residual" approach as this may have resulted in (a) onerous testing being undertaken by entities, and (b) inappropriate identification of performance obligations and/or measurement of goods and services promised in the arrangement.

### *Proposal to amend IG 23*

We believe that it is critical that entities are able to demonstrate that there is a clear intention for the counterparty to make a donation. In the absence of such evidence, we believe that entities should conclude that there is no donation component and that they should instead re-assess whether all performance obligations have been identified, or whether the goods and services have been measured appropriately. We believe that an explicit statement should be made in IG 23 to this effect.

Possible wording changes that could be made to IG 23 are as follows:

"If there is no qualitative evidence to suggest an intention of the customer to make a donation, then an entity should not recognise a donation component. Instead, a substantial difference...."

## **Question 4**

In relation to the AASB's proposals:

- (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)
  - (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.)

## Response

### *Agreement with proposal*

- (a) We agree with the proposal that entities may recognise volunteer services if the fair value of those services can be determined.
- (b) We agree that entities should be required to recognise volunteer services if they would have procured the services instead of them being donated. We believe that the nature of certain services received in-kind warrants recognition, and we therefore agree with the proposal. We believe that recognising services in-kind in these instances provides a complete view of the resources required for an entity to fulfil its objectives. It is for this reason that the ASB has recently published amendments to its equivalent of IPSAS 23 indicating that when services received in kind are significant in relation to an entity's objectives, then they must be recognised.

### *Support for same requirements in public and private not-for-profit sectors*

While we do not have experience in setting standards for the private, not-for-profit sector, we do not find compelling reasons for there to be a difference in the recognition requirements for services in-kind between the public and private sectors. We believe that the recognition of services in-kind in the circumstances provided in ED 260 provides users of the financial statements with critical information about the resources required for an entity to fulfil its stated objectives. This information would be just as useful to not-for-profit entities in both sectors.

### **Question 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.)

## Response

### *Support for proposal*

We support the proposal that inventories received should be recognised when they are material on an individual transaction basis. We believe that in the absence of this requirement, entities may spend unnecessary resources recognising and measuring items that do not provide relevant information to the users of the financial statements.

We also support the specific reference to a transaction based assessment, otherwise over time entities may assess the value of these inventories as quantitatively material, but qualitatively they remain immaterial.

## **ANNEXURE B**

In reviewing ED 260, we identified the following additional comments:

<b>Paragraph reference</b>	<b>Comment</b>
Objective (paragraph 1)	The last part of the sentence in the objective paragraph lists specific transactions. It may instead be appropriate to refer to broad groups of transactions as this may capture more scenarios. In line with the

	<p>wording used in paragraph 7, paragraph 1 could be amended as follows:</p> <p><del>“...of resources from <u>voluntary and compulsory transfers</u> donations, grants, taxes, and similar transactions and other similar events”.</del></p>
Paragraph 7	<p>We noted that “volunteer services” is not specifically listed in paragraph 7. While we understand that the list is not meant to be exhaustive, it may be appropriate to list “volunteer services” as specific guidance is provided on these transactions in the ED.</p>
Paragraph 10	<p>This paragraph indicates that: “When an entity recognises an inflow of a resource that meets the asset recognition criteria in paragraph 11, it shall recognise income to the <u>extent</u> that the initial carrying amount of that asset exceeds the sum of...” (own emphasis added).</p> <p>From our reading of this paragraph, and the particular reference to “extent”, it would appear as if the intention is to recognise revenue on a net basis, i.e. the income recognised is measured based on the extent that the value of the asset is greater than the value of the liability or any contribution from owners.</p> <p>We would not support the recognition of revenue on a net basis as this would result in the income statement being incomplete.</p>
Recognition and measurement section	<p>Our comment does not relate to any specific paragraph in this section, but we observed that there are no specific requirements for the recognition of revenue in this section.</p> <p>For example, paragraph 10 discusses when an inflow is considered revenue, but not when revenue should be recognised. Likewise, paragraph 12 refers to the different types of liabilities that should be recognised, but observed that there is no indication that any reduction, or part or full derecognition of these liabilities results in revenue being recognised.</p> <p>Guidance of this nature may be useful to preparers.</p>
Paragraph 22	<p>We question whether paragraph 22 is needed. Paragraph 21 makes it clear that other not-for-profit entities can elect to recognise volunteer services, as long as a reliable measure can be determined.</p>