Australian Government
Australian Accounting Standards Board

Key facts: Accounting for Income of Not-for-Profit Entities

Who should read this and why?

Who? This document provides a high-level overview of the income accounting standards for:

- Those involved with preparing, reviewing or approving financial statements for not-for-profit (NFP) entities and
- Donors, grant providers and other stakeholders interested in the financial performance of NFP entities.

Why? Income is often the largest balance in the financial statements of NFP entities and the recognition of income in accordance with Australian Accounting Standards can be complex to interpret.

Accounting standards for NFP income transactions

How do I know which standard is relevant?

AASB 1058 *Income of Not-for-Profit Entities* is the residual accounting standard for an NFP entity's income of which does not fall in the scope of another standard.

Other standards which may be relevant include:

AASB 9 *Financial Instruments*	➢ Dividend income ➢ Interest income
AASB 15 *Revenue from Contracts with Customers*	➢ Contractual arrangements with customers for specific goods or services.
AASB 16 *Leases*	➢ Rental income

Where an NFP entity has determined their income is not entirely within the scope of another standard, then there are two accounting standards that NFP entities need to consider for their income recognition policy:

- AASB 15 *Revenue from Contracts with Customers*
- AASB 1058 *Income of NFP Entities*

This document focuses only on AASB 15 and AASB 1058.

The standard used will affect the timing and amount of income to be included in the financial statements in a particular reporting period.

Why are there two accounting standards dealing with revenue?

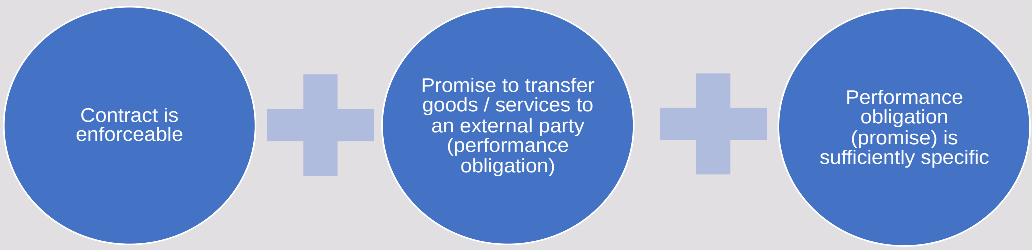
AASB 15 is derived from the International Accounting Standards Board equivalent standard which deals with commercial revenue of for-profit entities. The AASB added Appendix F in AASB 15 to explain and illustrate the principles of AASB 15 for NFP entities.

Many income streams of NFP entities are not similar in substance to contract revenue with customers and AASB 1058 was written for Australian NFP entities to provide accounting requirements for these other forms of income (e.g., certain grants, bequests, donations and income arising from other fundraising activities).

AASB 15 – an overview

Which contracts/agreements are in the scope of AASB 15?

A contract/agreement (or part of) is in the scope of AASB 15 if all of the following are met:



Examples of enforceability:
- Refund clause
- Ability to enforce specific performances or claim damages
- Right to take an interest in assets.

The funding should oblige the entity to transfer goods or services to a customer.
Funding for internal / administrative purposes will not result in a performance obligation.

The promised goods / services need to be sufficiently specific to enable the NFP to determine whether the obligation is satisfied. This requires judgement but the agreement should include conditions regarding the following for the goods / services:
- Nature or type
- Cost or value
- Quantity
- Period of supply / service.

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How does an NFP entity account for revenue in the scope of AASB 15?

Once the performance obligations (promises) in the agreement are identified, an NFP entity identifies how and when control of the performance obligation is passed to the customer and recognises the revenue accordingly, for example:

- If control is passed at a point in time, for example, when a good is transferred to the customer, then the revenue is recognised at that point in time.
- If control is passed continuously through the service period, for example, provision of a service on a recurring basis over the life of the contract, then the revenue is recognised on a straight-line basis as the service is performed.

AASB 1058 – an overview

Which agreements are in the scope of AASB 1058?

AASB 1058 is a residual standard covering all income streams of an NFP entity not covered by other Australian Accounting Standards, i.e. transactions where an asset was obtained for significantly less than its fair value that principally enable an NFP entity to further its objectives, such as donations, bequests, and grants that do not contain sufficiently specific performance obligations.

How does an NFP entity account for income in the scope of AASB 1058?

AASB 1058 requires an NFP entity to consider any assets or liabilities arising out of the transaction prior to income being recognised. The process is illustrated below.

For each transaction in scope of AASB 1058, determine whether the NFP entity has control over an asset, for example:

- cash
- receivables
- donated goods
- property, plant and equiipment
- inventory

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Recognise the asset at cost or fair value if the asset was acquired for significantly below fair value in accordance with applicable accounting standard (AASB 1058.8).

Assets which are acquired for significantly below market value include donated goods or those where the NFP entity paid less than fair value since the seller wanted to provide some benefit to the NFP entity to allow them to fulfil their objectives.

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Identify whether there are any liabilities or equity associated with the transfer of the asset, or example:

- provisions relating to rehabilitation (AASB 137)
- revenue or contract liabilities (AASB 15)
- financial liabilities (AASB 9)
- lease liabilities (AASB 16)
- contributions by owners (AASB 1004)

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Recognise any difference between the asset value and liability / equity as income.

The income is recorded in the relevant line item in the income statement (e.g., grant income, donations).

Illustrative example:

An NFP entity receives a donation from a philanthropic entity to assist in performing their mental health services over the next 12 months.

The terms of the donation did not provide details on how the funds should be spent and, therefore, the agreement does not contain a sufficiently specific performance obligation and is within the scope of AASB 1058.

On receipt of the funds, the NFP entity recognises the whole amount as revenue.

Is there any different treatment for capital grants?

When an NFP entity receives funds to acquire or construct a capital asset which they will control on completion, there is no transfer to external parties and therefore no performance obligation.

If the funds are received for an identified asset which is not required to be transferred to another party under an enforceable agreement, then the income can be recognised as or when the asset is acquired or constructed rather than on receipt of cash.

What will I see in the financial statements?

The income presented in the financial statements of an NFP entity will depend on a number of factors:

Factor	**Accounting outcome / presentation impact**
If financial statements are special purpose financial statements	Refer to the accounting policies to understand the income recognition since treatment may not be in compliance with accounting standards. For example, some entities may ‘match’ the income (such as grants) with the associated expenses, e.g., 50% of income is recognised when 50% of related expenses are incurred whereas others may recognise income based on when the cash is received.
The remainder of this table is applicable where the entity has prepared general purpose financial statements or has otherwise complied with the recognition and measurement requirements of the Australian Accounting Standards.	
If there is an enforceable agreement containing sufficiently specific performance obligations, i.e., in the scope of AASB 15?	Revenue will be recognised either: ➢ On completion of the transfer of goods/services ➢ Over the life of the agreement as the services are transferred. Generally, revenue will be recognised at a similar time to expenses being incurred.
If there is an agreement which: ➢ Is not enforceable ➢ Does not require contain a requirement to transfer goods or services to an external party or ➢ Does not provide sufficient specificity around the promised goods or services? i.e., in the scope of AASB 1058. (Refer below for exception for certain capital grants)	Income will be recognised on receipt of cash or another asset. The timing of expense recognition may not correlate to the income recorded.
If there is an agreement for an NFP entity to construct or acquire an identified capital asset that will be controlled by the NFP entity?	Income will be recognised when the asset is acquired or as the asset is constructed. Depreciation will be recognised over the useful life of the asset in accordance with AASB 116 *Property, Plant and Equipment*.

How can I find out more?

- AASB 15 and AASB 1058 can be found on the AASB website (aasb.gov.au/accounting-standards/)
- AASB staff FAQs for Not-for-Profit Entities (aasb.gov.au/Updated_NFP_Staff_FAQs_03-22)
- Refer to the staff webinar recording which covers the principles of AASB 15 and AASB 1058 (https://www.youtube.com/Income of NFP entities)
- Contact AASB staff at standard@aasb.gov.au