



Project:	Post-Implementation Reviews	Meeting:	M200
Topic:	Income of Not-For-Profit Entities - Sufficiently specific criterion	Agenda Item:	7.2
		Date:	13 November 2023
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		Decision-Making:	Low
		Project Status:	Initial consideration of stakeholder feedback

Objective of this paper

- 1 The objective of this Staff Paper is for the Board to:
 - (a) **consider** the feedback received on Topic 1: Sufficiently specific criterion and the legal interpretation of agreements included in ITC 50 *Post-implementation Review – Income of Not-for-Profit Entities* (ITC 50); and
 - (b) **discuss** the feedback, staff analysis and preliminary views in relation to ITC 50 Topic 1. The Board will not be asked to make any decisions at this meeting but rather to provide feedback and suggestions for further analysis. Following the discussion staff will develop recommendations and ask the Board to decide on possible next steps¹ at a future meeting.

This paper is carried over from the AASB September 2023 meeting agenda item 8.2.3 amended for editorial references without any substantial modifications and to include relevant feedback from KPMG's comment letter.

Structure

- 2 This paper is structured as follows:
 - (a) Background (paragraphs 3 to 12)
 - (b) Analysis of respondents' feedback (paragraphs 13 to 86)

1 See Agenda Paper 7.1 *Cover Memo* Appendix A: Post-implementation review decision-making process and Appendix B: Possible responses to PIRs.

- (c) What the AASB has done so far (paragraphs 87 to 106)
- (d) Staff analysis and preliminary views (paragraphs 107 to 131)

Background

- 3 AASB 15 *Revenue from Contracts with Customers* incorporates IFRS 15 *Revenue from Contracts with Customers*, which is generally expressed from the perspective of for-profit (FP) entities. The AASB developed and issued AASB 15 Appendix F *Australian implementation guidance for not-for-profit entities* and *Australian illustrative examples for not-for-profit entities* to explain and illustrate the Standard and assist with its implementation from the perspective of not-for-profit (NFP) entities in the private and public sectors. Appendix F does not apply to FP entities.²
- 4 Paragraphs 22 and 30 of AASB 15 Appendix F require that, to enable an entity to identify the performance obligations that it should account for separately, each promise to transfer goods or services needs to be distinct (including being separately identifiable) – individually, or if not individually, as a bundle combined with other promises.
- 5 To provide further guidance on identifying performance obligations, paragraph F20 requires, from an NFP entity perspective, that a performance obligation needs to be *sufficiently specific* to determine when the obligation is satisfied, that judgement is required and this judgement takes into account explicit or implicit conditions regarding the promised goods or services including the nature or type, cost or value, quantity and period over which the goods and services must be transferred. Paragraph F22 states that no specific number or combination of these conditions is required for the promise to be sufficiently specific. There may also be other conditions that need to be taken into account in addition to those stated in paragraph F20.³
- 6 As summarised in [Agenda Paper 3.2.1](#) (October 2023) providing an overview of the feedback by topic, when developing ITC 50, feedback from stakeholders suggested that the term sufficiently specific is unclear and there is confusion in practice about how the term should be applied. Stakeholders indicated that, because determining whether the sufficiently specific threshold is met can be a matter of judgement, differences in application can exist regarding how to account for contracts with similar terms and conditions. In some cases, it will be clear that the obligations of a contract are sufficiently specific. In other cases, it will also be clear that a contract is not sufficiently specific. However, there are likely many possible variations where judgement will be required to determine whether a contract is sufficiently specific.
- 7 ITC 50 included eight example obligations that could be included in a contract and, using the factors in AASB 15 paragraph F20, concluded whether the contract is sufficiently specific.

Obligations of the contract	Is the contract sufficiently specific, using the factors in AASB 15.F20?
(a) Spend the money in accordance with the entity's objectives.	No. The contract is not sufficiently specific as there is no detail about the type or quantity of services, the recipients or the time frame over which the services should be provided.
(b) Provide counselling services	No.

² AASB 15 paragraph F1.

³ See Appendix 1 *Relevant extracts from AASB 15*.

Obligations of the contract	Is the contract sufficiently specific, using the factors in AASB 15.F20?
	While the type of services to be provided is identified, there is no detail about the quantity of services, the recipients or the time frame over which the services are to be provided. Therefore, the contract is not considered sufficiently specific.
(c) Provide counselling services over the next 24 months	Unclear. While there is detail regarding the type of services and the specified period, there is no detail about the recipients and quantity of services to be provided. The importance of specificity about the recipient of the services and the quantity of services to be provided is a matter of judgement.
(d) Provide counselling services in Melbourne for the next 24 months.	May be sufficiently specific. While the agreement specifies that counselling services are to be provided, the location and the time frame of the services to be provided, there is no specific detail about the nature or quantity of the counselling services.
(e) Provide counselling services in relation to mental health in Melbourne over the next 24 months.	May be sufficiently specific. While the agreement specifies the type of services to be provided, the location and the time frame, there is no specific detail as to whom the services are to be provided to. However, the importance of specificity about the service recipient is a matter of judgement.
(f) Provide counselling services to adolescents affected by mental health issues in Melbourne over the next 24 months.	Yes. The entity has little discretion over the type, quantity, recipient and location of services.
(g) Provide monthly counselling sessions to adolescents affected by mental health issues in Melbourne over the next 24 months	Yes. The entity has little discretion over the type, quantity, recipient and location of services.
(h) Provide 400 counselling sessions to adolescents affected by mental health issues in Melbourne over the next 24 months.	Yes. The entity has little discretion over the type, quantity, recipient and location of services.

8 Some stakeholders also expressed concerns that the extent of specificity needed to meet the sufficiently specific criterion for a contract (or part of a contract) to be within the scope of AASB 15 seems to be a much higher threshold than a legal interpretation of when an entity would breach the requirements of an agreement and not satisfy relevant performance obligations.

- 9 Given the differences in application arising in practice, there was some concern that the comparability of NFP financial statements may be reduced.
- 10 ITC 50 asked the following questions on the term sufficiently specific:

Questions for respondents

Regarding the term sufficiently specific in AASB 15 Appendix F, do you have any comments about:

- 1 the application of the term in practice?*
- 2 the extent of specificity needed to meet the sufficiently specific criterion for a contract (or part of a contract) to be within the scope of AASB 15?*
- 3 whether differences in application exist?*

If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

- 4 In addition to the existing guidance in AASB 15 Appendix F, is there any other guidance that would help you determine whether a contract (or part of a contract) is sufficiently specific? If so, please provide details of the guidance and explain why you think it would be useful.*

- 11 Following the issue of the ITC, during the outreach phase of the post-implementation review (PIR), staff actively engaged with stakeholders to seek feedback on this topic.⁴ In addition to formal comment letters being submitted, stakeholders could also provide feedback on this topic via a survey and discussion during the various roundtable events held by staff.⁵ Stakeholders were also invited to discuss the topic further during one-on-one meetings with staff where they requested this.
- 12 This Staff Paper is part of the ‘feedback and next steps’ phase of the PIR process. Appendix A and B of Agenda Paper 7.1 sets out the framework to support the Board in considering stakeholder feedback and determining what action, if any, may be required.

Analysis of respondents’ feedback

ITC 50 questions 1 to 3: Application of the term sufficiently specific in practice, the extent of specificity required and differences in application

- 13 Overall, most stakeholders⁶ who provided feedback suggested that the term sufficiently specific is difficult to apply in practice, is judgemental and leads to differences in application with different stakeholders expressing different views.

⁴ See [Agenda Paper 3.2.0 Cover Memo: Income of Not-for-Profit Entities](#) (October 2023) for more details.

⁵ Comment letters can be accessed from the [AASB website](#). Survey responses were presented to the Board at the October 2023 meeting: [Agenda paper 3.2.5 Survey Responses](#).

⁶ See submissions 1 to 9 and 12 to 14 (12 of 14 comment letters) accessible from the [AASB website](#). Also see October 2023: [Agenda Paper 3.2.5 ITC 50 Survey responses](#) and Agenda Paper 3.2.6 *ITC 50 virtual meeting notes* [in supplementary folder for the Board only] – 18 out of 19 respondents answered yes to Q4 of the survey ‘In your experience, are there application issues because of the use of the term ‘sufficiently specific’?’ Comments made at the NFP Advisory Panel meeting, Roundtables 1 to 3 and individual meetings are consistent with feedback received in the comment letters. Specific comments have been included in this paper however detailed feedback is included in the supporting agenda papers.

- 14 However, in an individual meeting with employees from a professional services firm, they commented that reasonable conclusions can be reached with the sufficiently specific criterion. Where clients do not know what needs to be done, the arrangement is probably not sufficiently specific.
- 15 Staff heard discussions from various stakeholders that some NFP entities are taking the lead on arranging funding so they can achieve the desired accounting outcome.

For-profit requirements compared to NFP requirements

- 16 One respondent (Pitcher Partners (PP)) suggested that the requirement for a contract to be sufficiently specific makes the accounting for NFP entities more onerous than the FP accounting because the requirements of Appendix F do not apply to FP entities.
- 17 In line with PP's comment, in the NFP Advisory Panel meeting, one member commented that if grant agreements were looked at by FP entities, it would be determined that they should be accounted for under AASB 15. However, when they are reviewed by NFP entities, there are questions around timeframe, quantity, who is going to perform and who will receive the benefits,⁷ which adds complexity to the determination of how to account for the contracts.
- 18 Another NFP Advisory Panel member commented that, in the FP environment, the requirements of AASB 15 and AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* do not cross over. It is clear which standard needs to be applied and FP entities do not need to analyse whether a contract is sufficiently specific when applying the requirements of AASB 120.
- 19 Another NFP Advisory Panel member commented that where there are sectors that include both NFP and FP entities (e.g. aged care), there should be consistency in the accounting requirements applied by both types of entities (e.g. as an aged care facility is providing a service, all arrangements should be accounted for under AASB 15).

NFP resourcing

- 20 One survey respondent and attendees at the virtual meetings discussed that many NFP entities do not have sufficiently experienced and qualified staff who understand AASB 15 to be able to implement the standard and make the required assessments. The number and frequency of resignations is also a big issue.
- 21 An NFP Advisory Panel member also commented that the practical issues in the sector relating to education, knowledge and experience cannot be addressed by amending AASB 15 and AASB 1058 *Income of Not-for-Profit Entities (the Standards)*, and instead is an issue within the sector and needs to be addressed through training.
- 22 In other virtual meetings, there was also discussion about the time and effort needed to go through individual contracts with the costs outweighing the benefits, and there is a need to simplify this in some way. One attendee observed NFP entities not looking at individual contracts and basing their conclusions on a general revenue recognition policy that is developed by the entity. Entities apply the policy to all agreements without considering the details of each agreement individually, as required by the Standards.
- 23 One NFP Advisory Panel member commented that, where there is a judgement call in determining whether to account for a contract under AASB 15 or AASB 1058, there is consideration of how

7 As required by AASB 15 Appendix F.

material the contract is and whether the NFP entity has the resources to be in a position to make the judgement call. NFP entities are asking their auditor to tell them how it should be accounted for, which is not the role of an auditor.

Preparer and auditor differences in judgement

- 24 A number of stakeholders commented on the inconsistencies in application between entities/preparers and auditors with some auditors applying the AASB 15 requirements strictly while others are not.
- 25 An attendee at Roundtable 1 who was from an accounting firm whose clients are only NFP entities commented that, in their experience, every audit firm (Tier 1, Tier 2 and other firms) have a different approach to AASB 15.
- 26 An attendee at Roundtable 2 commented that there have been changes in the accounting treatment of contracts as a result of auditor judgement that has occurred between different years for the same client (i.e. applying AASB 15 in one year and then AASB 1058 in another year). This attendee said that this makes it hard to provide advice to their clients. Two attendees said they have also experienced this in the local government space.
- 27 In an individual meeting with an accounting advisor in an audit office, they said when they receive questions from auditors about whether an agreement should be accounted for applying either AASB 15 or AASB 1058, they are advising, regardless of the accounting decision made, that it is a key area of judgement and to disclose the judgements made and that similar situations should be accounted for consistently. Another similar stakeholder commented that incoming CFOs and outgoing CFOs often have different views on what is sufficiently specific.

Similar agreements being accounted for differently

- 28 HoTARAC commented that publicly available information indicates diverging revenue or income recognition for components of Activity Based Funding (ABF) under the National Health Reform Agreement, with this funding being inconsistently recognised under either AASB 15 or AASB 1058. This is despite a common grant program with similar modelling assumptions, with only one jurisdiction acting as a modelling outlier.
- 29 An academic⁸ made the observation that different universities are accounting for Australian Research Council and National Health and Medical Research grants differently (i.e. applying AASB 15 or AASB 1058). It is their understanding that these agreements have standard paragraphs and terms.
- 30 An attendee at Roundtable 3, who works for the Commonwealth, commented that from time to time the Commonwealth look at the agreements they have in place to grant funds to NFP entities and, in some situations, consider that the funding would be sufficiently specific. However, they observed that the NFP entities are accounting for them applying AASB 1058.
- 31 Similarly, in an individual meeting, staff were told that similar template agreements in the arts industry are being accounted for differently by recipients.

Feedback on examples included in ITC 50

8 See [submission 6](#) from Dr Mark Shying CA, Swinburne University School of Business, Law and Entrepreneurship..

- 32 Paragraph 7 includes the example contract obligations and the conclusions on whether the contract would be sufficiently specific, using the factors in AASB 15 paragraph F20, that were included in ITC 50. This section includes the feedback received from stakeholders on these examples.
- 33 In the NFP Advisory Panel virtual meeting, a member commented that the examples highlight the issues with the standard and that judgement is required.
- 34 Seven comment letter respondents provided feedback on the examples. Their feedback confirmed the existence of different views and the significant judgement involved in the determination. Staff note that four respondents (PP, ACAG, BDO and KPMG) agreed with the conclusions reached in examples (a), (b) and (h).⁹ Arguably these examples were the clearest.
- 35 However, feedback on the other arguably more judgemental examples was mixed.

ITC 50 examples of obligations of the contract	Respondent's feedback on conclusions in ITC 50 (emphasis added by staff)
<p>(c) Provide counselling services over the next 24 months.</p>	<p>36 Two respondents (PP and BDO) did not agree that this example is 'unclear':</p> <p>(a) in PP's view this example is not sufficiently specific because there is no detail indicating the quantity of the services to be provided.</p> <p>(b) in BDO's view, with the absence of some minimum quantification of sessions or a clear 'stand-ready/show-up' obligation to provide the services (i.e. they are ready to provide counselling services regardless of whether any clients present to the entity), this example is not sufficiently specific. The entity is unable to demonstrate it could reliably measure when the promised good(s) or services(s) have been transferred. BDO also commented that, regardless of whether the grant agreement requires generic counselling services, counselling services in Melbourne, or counselling sessions in relation to mental health in Melbourne – the recipient of the grant is likely to have difficulty determining when the additional services were provided as there is no minimum number of sessions specified.</p> <p>37 One respondent (ACAG) suggested that example (c) could be sufficiently specific if the entity only provided mental health counselling services to adolescents in Melbourne. Example (c) is a 'grey' example that requires significant judgement (they also said this for example (d) and (e)). They additionally noted that none of examples (c), (d), (e), (f) and (g) meet the sufficiently specific test under AASB 15 to determine the extent of performance ('percentage complete') as the performance obligation is unknown/not sufficiently specific.</p>
<p>(d) Provide counselling services in Melbourne for the next 24 months.</p>	<p>38 One respondent (PP) did not agree that this example 'may be sufficiently specific'. In their view, because the quantum of counselling services is not stated in the contract, the contract is not sufficiently specific.</p> <p>39 However, another respondent (ACAG) commented that example (d) could be sufficiently specific. In their view, paragraph F25¹⁰ implies that specifying the services to be provided and the time period enables a determination of when the services have been provided.¹¹ So, if the agreement specifies 'counselling services in Melbourne' and 'for the next 24 months', this may be argued to be sufficiently specific, acknowledging that the entity has</p>

9 PP commented on all examples except these, so it is assumed that they agreed with the conclusions. KPMG commented on examples (f) to (h), so it is assumed they agreed with the conclusions in (a) to (e).

10 An extract of paragraph F25 is included in Appendix 1 *Relevant extracts from AASB 15*.

11 In developing AASB 15 Appendix F, the Board concluded that a condition that a transfer of assets to an NFP 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 (AASB 2016-8 paragraph BC43).

ITC 50 examples of obligations of the contract	Respondent's feedback on conclusions in ITC 50 (emphasis added by staff)
	<p>discretion as to what type of counselling services and to whom. ACAG's comments in example (c) also apply here.</p> <p>40 Another respondent's (BDO) comments on example (c) also apply here. Further, in their view, they do not think articulating the 'to whom' and/or 'where' more precisely (i.e. narrowing down the target recipients and/or location of the recipients of the promised goods or services as shown in examples (d), (e) and (f)) necessarily assists preparers and auditors in determining whether the entity can more or less reliably measure when the promised good(s) or services(s) have been transferred.</p>
(e) Provide counselling services in relation to mental health in Melbourne over the next 24 months.	<p>41 One respondent (PP) provided similar comments to those included in example (d) (i.e. this example is not sufficiently specific).</p> <p>42 Another respondent's (BDO) comments on example (c) and (d) also apply here.</p> <p>43 One respondent's (ACAG) comments in example (c) also apply here.</p>
(f) Provide counselling services to adolescents affected by mental health issues in Melbourne over the next 24 months.	<p>44 One respondent (KPMG) commented that this maybe sufficiently specific.</p> <p>45 One respondent (PP) suggested that this example is not sufficiently specific because it does not contain any quantity in the fact pattern, only the type of goods or services to be provided and the period over which they are to be delivered.</p> <p>46 Another respondent (ACAG) commented that AASB 15 is not specific enough to draw a firm conclusion on whether the facts in examples (f) and (g) are sufficient to meet the sufficiently specific criterion. Only when the number of sessions and/or number of hours to be provided is specified does it clearly meet the criterion. In determining whether the criterion is met, it is important to consider the amount of discretion which remains with the grantee. The example included in the ITC does not specify what services are provided by the grantee. For example, if the grantee only provides mental health counselling services to adolescents, it may be that the sufficiently specific performance obligation (SSPO) criterion is met earlier – this is because there may be far less discretion in terms of what the funds could be spent on. That is, the funds could not be used to provide other types of counselling to other age groups. Paragraph F25 explains that a single purpose charter is unlikely to be enough – but it could be that the single purpose is more specific than that in the example provided in paragraph F25. It is not currently clear. ACAG's comments in example (c) also apply here.</p> <p>47 Another respondent (RSM) commented that it is easily arguable that this example is not sufficiently specific in line with the guidance given in AASB 15 Appendix F as the 'provision of counselling services to adolescents affected by mental health issues over 24 months' is, in their opinion, non-specific, with significant discretion available to determine what such services entail by the provider. In this example, they consider further detail is required to define sufficiently specific, such as the number of hours of services to be provided, qualifications of staff providing services, or a minimum level of on-demand service to be achieved.</p> <p>48 One respondent (HoTARAC) commented on, in their view, the counter-intuitive conclusion of this example. The Commonwealth provides grant funding to states and territories to provide legal services for eligible members of the public. The funding agreement stipulates legal services, duration of agreement and locality (state or territory). In practice, providing those services is at the discretion of the provider who assesses the eligibility, need and priority of assistance. The extent of the services is highly volatile due to the varying needs of the recipient of those services, and it is difficult to apply the notions of delivering an outcome to the donor per AASB 15 Illustrative Examples 2 to 5. Therefore, the blanket</p>

ITC 50 examples of obligations of the contract	Respondent's feedback on conclusions in ITC 50 (emphasis added by staff)
	<p>description for (f) does not appear to describe quantity with enough specificity to meet the sufficiently specific criterion (and therefore achieve measurement against satisfaction of a performance obligation).</p> <p>49 Another respondent's (BDO) comments on example (c) and (d) also apply here.</p>
(g) Provide monthly counselling sessions to adolescents affected by mental health issues in Melbourne over the next 24 months.	<p>50 Two respondents (PP and ACAG) provided similar comments to those in example (f).</p> <p>51 One respondent (BDO) observed that adding in a monthly requirement, which is the only difference between examples (f) and (g) does not assist in determining when the services are required (24 months being the overall period). Their comments on example (c) also apply here.</p> <p>52 One respondent's (ACAG) comments in example (c) also apply here.</p> <p>53 One respondent (KPMG) concluded that this is sufficiently specific.</p>
(h) Provide 400 counselling sessions to adolescents affected by mental health issues in Melbourne over the next 24 months.	<p>54 One respondent (ACAG) noted when considering discretion in example (d) that it can equally be argued that an element of entity discretion exists even in example (h) as the entity could choose between the following options:</p> <ul style="list-style-type: none"> (a) group counselling sessions versus one-to-one counselling sessions; (b) online versus physical counselling sessions; or (c) nutrition counselling versus financial awareness counselling. <p>55 One respondent (BDO) commented that this is clearly sufficiently specific because the entity can identify when the services have been transferred. KPMG also commented that that this is sufficiently specific.</p>

56 Other observations made include:

- (a) one jurisdiction (a minority) within ACAG suggested that, in their experience, in practice many preparers are interpreting the term sufficiently specific using common English definitions, and not how the term is used in a technical way to apply AASB 15 in determining the 'percentage of completion'. The jurisdiction believes that, if AASB 15 is to be aligned to common funding arrangements (e.g. that include spending obligations on specific projects/activities), then based on how funding arrangements are commonly drafted, all of the ITC 50 examples (a) to (h) would likely meet the test for being sufficiently specific to determine compliance with the spending obligations. Similar comments were made by an attendee at Roundtable 3 and therefore, they disagreed with examples (c) to (g). ACAG majority views on the ITC 50 examples are included in the table above, and observations of and recommended changes to Appendix F are included in paragraphs 58, 61 and 68.
- (b) in answering question 23¹² of ITC 50, HoTARAC commented that the ITC 50 examples may result in major auditing or assurance challenges. Further, examples (f) and (g) increase the uncertainty of measurement and the level of judgement required in recognising unearned income for entities providing grant funded services to third parties. HoTARAC made recommendations, included in paragraph 58, on how this may be remedied.

12 ITC 50 question 23: 'Does the application of AASB 1058 and AASB 15 by NFP entities result in major auditing or assurance challenges?'

- (c) In contrast to paragraph 56(b), Deloitte found that the table provided in ITC 50 covering the possible variations of obligations of the contract along with the assessment of sufficiently specific to be very helpful and believe the Board should consider formalising this as authoritative guidance (e.g. inclusion as part of Appendix F) to help reduce the diversity in practice. Deloitte made this comment in the context of the judgement needed to determine whether a promise is sufficiently specific and the need for guidance in this area to assist entities to make the determination in a consistent manner.
- (d) KPMG suggested the AASB provides additional Illustrative Examples similar to the counselling services examples whereby the facts are modified slightly in each subsequent example and explain whether and why each example is or is not considered sufficiently specific.

Feedback on the requirements of AASB 15 Appendix F

57 This section summarises feedback received in relation to specific paragraphs in AASB 15 Appendix F, including relevant guidance.¹³

Paragraph F20

58 Three respondents (PP, ACAG and HoTARAC) suggested that as it is currently drafted, in their view, most (if not all) the criterion noted in paragraph F20 need to be present for a contract to be considered sufficiently specific:

- (a) PP commented that the analysis provided on some of the conclusions in the ITC 50 examples seems to indicate that all the factors in AASB 15 paragraph F20 are required for the item to be sufficiently specific. However, paragraph F22 states that no specific number or combination of these conditions need to be specified in an agreement for the promise to be sufficiently specific. PP's view is that, without at least the majority of these factors present in a contract (if not all the factors), it will not meet the sufficiently specific criterion.
- (b) Similarly to PP, ACAG commented that, despite what is stated in paragraph F22, from the implementation examples and the guidance in paragraphs F20 to F26, the bar for assessing sufficiently specific seems to be high.
- (c) HoTARAC commented and suggested:
 - (i) that a reading of paragraphs F20(a) to (d) can lead to the reader assuming each criterion must apply as a prerequisite for the existence of a performance obligation.
 - (ii) that to clarify the intended application of paragraph F20(d), the period of transfer of goods or services ought to be mentioned in the context of AASB 15 paragraph 35 which covers performance obligations satisfied over time.
 - (iii) revisiting the conjunctions of paragraph F20(a) to (d) and plainly stating that any combination of those four aspects, which allows progress measurement for delivering performance obligation, establishes specificity.

59 One respondent (RSM) also commented that the conditions in paragraphs F20(a) to (d) describe the basic elements of performance obligations and give minimal guidance on how to exercise judgement.

¹³ Extracts of paragraphs referred to in this section are included in Appendix 1.

Further, RSM suggested that paragraphs F22 and F24 do little to further clarify how judgement should be applied.

- 60 A survey respondent questioned whether the ability for discretion within agreed parameters constitutes specificity.
- 61 In relation to **when** the obligation is satisfied, ACAG provided the following feedback:
- (a) In practice, this can be a useful consideration in applying judgement about whether the sufficiently specific criterion has been met. Application of this principle itself requires interpretation and judgement.
 - (b) It is not clear how paragraph F20 relates to paragraph F25. It could be argued in many cases that the recipient entity knows how much the goods/services provided to date cost, and as such this meets the criterion. While input methods may be a suitable method of determining revenue recognition, it does not necessarily equate that there is a SSPO. This can be challenging to apply in practice. While paragraph F26 tries to address this, it is unclear how much reliance can be placed on an acquittal process based purely on spending funds received. This is often further exacerbated by the fact that the agreement may include a number of outcomes/deliverables, some of which would appear not to meet the SSPO criterion. It is not always clear how the funding aligns with each of these outcomes/deliverables 'to determine when the obligation is satisfied.' For example, the distinction of funding for 'activities required to fulfil the contract' (i.e. setup activities) (paragraph 25 of AASB 15) versus the provision of a service to a customer which meets the SSPO criterion versus neither a performance obligation nor a setup activity.¹⁴
 - (c) An associated complexity is when a grant application which forms part of the agreement specifies amounts to determine whether the recipient is obliged to spend those amounts on those specific items or not and whether the level of flexibility to allocate funds to the various elements/objectives of the project impact the accounting outcome.
- 62 An NFP Advisory Panel member commented in the virtual meeting that there needs to be a line drawn as to what is and is not providing a service. It is difficult to know what this line is, even if other requirements are applied.
- 63 An attendee at Roundtable 1 commented that targets within a contract should be a factor that is considered when determining how a contract should be accounted for (e.g. the number of tenants that find housing for in a year/period).
- 64 An accounting policy expert working for an audit office in an individual meeting commented about including in AASB 15 how far an entity needs to go to determine what is sufficiently specific. Although they noted the inclusion of this is dependent upon what the AASB is trying to achieve – consistency or ease of application? Similarly, another stakeholder thought better guidance on the threshold as to what is considered sufficiently specific is needed – they thought the AASB webinar on the level of specificity/judgement required was helpful but thought there is still uncertainty about specificity.

14 AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15* inserted illustrative example 7A accounting for upfront fees to address issues stakeholders raised regarding upfront fees received that are in the scope of AASB 15. The example included an illustration of accounting for set-up fees.

Paragraph F21

- 65 BDO made the following comments in relation to paragraph F21 and think it could be helpful for preparers and auditors to include additional discussion in Appendix F framed around the difference between internal activities, outcomes and outputs:
- (a) in practice, grant agreements contain a long list of activities that a NFP entity must perform, many of which are of an administrative nature, and do not directly result in a good or service being transferred to a customer (internal activities). Entities therefore often confuse these 'internal activities', or milestones, with SSPOs and want to recognise revenue on the basis of expenditure patterns.
 - (b) amongst the long list of activities in grant agreements, there may appear:
 - (i) a description of required outcomes – these are considered by BDO to be high level objectives of the grant, which are not specific enough to enable an entity to determine when it has satisfied its performance obligation;
 - (ii) a description of specific outputs – these are considered by BDO to be goods or services where an entity is able to measure when it has transferred that good or service. There is only a SPPO if a specific output can be identified.

Paragraph F22

- 66 In line with PP and ACAG's comments in paragraphs 58, two respondents (BDO and Deloitte) commented that, when paragraph F20 is read in conjunction with F22, it provides limited and potentially contradictory guidance to preparers and auditors. This has resulted in implementation challenges as entities need to apply judgement when determining whether a promise is sufficiently specific.
- 67 As included in paragraph 59, RSM suggest that paragraph F22 does little to further clarify how judgement should be applied.

Paragraph F28

- 68 One ACAG jurisdiction noted that paragraph F28 is sometimes misconstrued. This paragraph is sometimes used, where it is unclear if there is an SSPO, to argue that the grant is assisting the provider (where internal to government) achieve their objectives. It should be clarified that this paragraph is not designed to assist in determining whether an SSPO exists, but how to allocate the transaction price where an element of the money provided is a donation.

Dual purpose arrangements - judgement influenced by legal interpretations

- 69 In KPMG's experience, there is divergence in accounting for some arrangements entered into for the dual purpose of transferring goods or services as well as to help the entity achieve its objectives.¹⁵ This arises from the rebuttable presumption that the transaction price is wholly related to the transfer of goods or services. The presumption can only be rebutted when the transaction price is

15 AASB 15 paragraph F28: "A customer may enter into a contract with a not-for-profit entity with a dual purpose of obtaining goods or services and to help the not-for-profit entity achieve its objectives. An entity shall allocate the transaction price to each performance obligation so that the performance obligation allocation depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer. This is based on the **rebuttable presumption** that the transaction price is treated as wholly related to the transfer of promised goods or services." (emphasis added)

partially refundable.¹⁶ KPMG have observed arrangements where the transaction price is fully refundable but the intention of the donor was clear that part of the funds provided were for general use by the entity to achieve its objectives. A similar situation would also arise where no refund obligation exists but funds are provided within a dual-purpose arrangement.¹⁷ Therefore, the financial reporting outcomes associated with arrangements of similar intent¹⁸ are diverging based on legal refundability.

- 70 KPMG recommended the instances, where entities may rebut the presumption the transaction price is wholly related to the transfer of goods or services, be expanded such that it is clearer it may be appropriate to allocate the transaction price between the dual purpose even when all or none of the transaction price is refundable. In KPMG’s opinion, refundability is a useful consideration but is not the sole guide to a donor’s intent. For example, an arrangement might specify a range of conditions that the entity must abide by when using the funding. These conditions could be assessed as resulting in one or more SSPOs but ultimately are insignificant in the context of the broader arrangement. In such a case, an entity might determine that it is appropriate to rebut the presumption and allocate the transaction price between the transfer of goods or services and donation element rather than treating all the transaction price as relating to the insignificant transfer of goods and services, accounted for in its entirety under AASB 15 or vice versa, accounted for in its entirety under AASB 1058.

ITC 50 question 4: Any other guidance that would help determine whether a contract (or part of a contract) is sufficiently specific?

- 71 PP suggested that, because entities have interpreted the requirements to the best of their abilities (albeit with differences), they are reluctant to support wholesale changes to the standard that would make it even more difficult to apply. Instead, they suggest, as a short-term measure, including the existing FAQs in the Standard. PwC support this too.

16 AASB 15 paragraph F29: “The presumption is rebutted where the transaction price is partially refundable in the event the entity does not deliver the promised goods or services.”

AASB paragraph F30: Where the presumption is rebutted, the entity shall disaggregate the transaction price and account for the component that relates to the transfer of promised goods or services in accordance with this Standard. The remainder of the transaction price shall be accounted for in accordance with AASB 1058. Whether the element not related to the performance obligation is material, and therefore needs to be accounted for separately, shall be assessed in relation to the individual contract, without reassessment at an aggregate or portfolio level.

AASB 15 paragraph F31: To disaggregate the component that relates to the promised goods or services, the following may be indicative of an element that is not related to the promised goods or services (and more likely to be for the purpose of enabling the not-for-profit entity to further its objectives):

(a) a non-refundable component of the transaction price; and
(b) where the entity has the status of a deductible gift recipient – the donor can claim part of the transaction price as a tax deduction for a donation.

17 AASB 15 paragraph BC55: “The Board observed that a partially refundable transaction price usually indicates that some part of the transaction price might not relate to the transfer of the promised goods or services. A non-refundable component of the transaction price might represent a donation or grant to the entity. However, the Board also noted the guidance in paragraphs B48–B51 of AASB 15 which relate to non-refundable upfront fees. That guidance illustrates that in some cases a non-refundable upfront fee could still relate to the transfer of promised goods or services, in which case the non-refundable upfront fee could form part of a performance obligation and be recognised as revenue when the obligation is satisfied. The Board noted that donations very rarely relate to the transfer of promised goods or services and therefore concluded that its guidance attached to AASB 15 does not override the guidance of paragraphs B48–B51.”

18 AASB 15 paragraph BC52: “Feedback on the ED 260 model indicated significant concern in relation to implementing the two-step process. The primary concern raised was that assessing the customer’s **intent** when making the donation would be highly subjective and, for many transactions, such an assessment could not be made due to a lack of evidence. Despite these concerns, the majority of respondents agreed that any “donation” component included in a contract with a customer should be separated from the contract and accounted for in accordance with AASB 1058.” (emphasis added)

AASB 15 paragraph BC53: “To address constituent concerns the Board decided to replace the two-step model with a rebuttable presumption. The presumption is that the total transaction price in a contract with a customer is related to the transfer of the promised goods or services.” See paragraph F28 extract above where rebuttable presumption is included in AASB 15.

- 72 RSM support additional grant examples because most NFPs receive grant funding with potential SSPO, and guidance should be available to assist consistent application and consideration. However, they note that adding more examples would effectively admit that the Standards are too complex or lead to outcomes that do not appear appropriate to preparers. RSM's view is, therefore, that only standard-setting can address the fundamental problems.
- 73 One survey respondent commented that, if the AASB wants to reduce the disparity of views, there needs to be a reduction in the amount of judgement that can be applied and more detailed rules about what is sufficiently specific. Three out of four survey respondents who answered question 7,¹⁹ requested clarification of sufficiently specific and two out of four asked for more examples.
- 74 Deloitte suggested the Board provide more guidance to assist entities in making the determination in a consistent manner to ensure the comparability of NFP entities is not impacted. Deloitte encourage the Board to issue guidance that is user-friendly and caters to different terms and conditions seen in NFP agreements. Although Deloitte acknowledges that, due to the level of inherent judgement involved in the assessment of sufficiently specific, this may result in differences in practice with NFP entities potentially reaching a different conclusion for similar grant contracts.
- 75 An NFP Advisory Panel member in the virtual meeting suggested a one-page guidance document to assist NFP entities to understand the standard requirements while another member (with three additional members supporting this) said they did not want more guidance and the Standards should be able to be understood with limited guidance. The guidance developed by the AASB has been helpful during the transition but preparers do not use the guidance or know where to find it. Adding additional guidance may add to the confusion and the sector will be better off understanding the Standards themselves. More guidance is not needed but there should be thought on what is trying to be achieved and alternatives should be considered.
- 76 An attendee at Roundtable 2 commented that examples might be helpful in how to account for and consider milestones.

Illustrative examples and ITC 50 examples

- 77 HoTARAC suggested that a review and further development of illustrations showing how the sufficiently specific criterion is applied in Illustrative Examples would benefit preparers by emphasising:
- (a) the consistency of the sufficiently specific criterion with recognition criteria in the *Framework for the Preparation and Presentation of Financial Statements* for asset and liability impacts; and
 - (b) the effect of implied terms or practices in agreements that are sufficiently specific and enforceable.
- 78 HoTARAC also suggested clarifying how ITC 50 examples (c) to (e) and AASB 15 Illustrative Example 4²⁰ meet the sufficiently specific criterion.
- 79 BDO commented that, while Illustrative Example 7A of AASB 15 provides a good example of how to account for internal activities, Illustrative Examples 2 to 5 only relate to research activities.²¹ Given

19 'Please provide specific details of the guidance you would find helpful in relation to the sufficiently specific criterion, including reasons why.'

20 This example illustrates application of AASB 15 requirements to research activities and the transfer of research findings.

21 These examples illustrate the application of AASB 15 requirements for research activities and the transfer of intellectual property (Example 2), provision of licence to donor (Example 3), transfer of research findings (Example 4) and no contract with a customer (Example 5).

the diversity in other types of grant arrangements, it would be useful to include an example for a non-research type service:

- (a) KPMG commented similarly and said these are marginally useful outside their fact patterns and of limited utility to arrangements that contain multiple promises. KPMG suggested the AASB develop additional Illustrative Examples that contain multiple promises and cover arrangements such as arranging and hosting an event with a substantial lead-time, custody and care arrangements for items of historic or cultural significance, and community care and engagement. Any additional examples should illustrate the identification of multiple performance obligations from a large set of promises where the grant is entirely refundable in the event that any of the promises are not met and adopt a similar approach to the ITC 50 examples (modifying the facts in each subsequent example); and
- (b) HoTARAC commented similarly about the extension of Illustrative Examples to other transactions including inter-government contracts associated with grant funding or funding of service provision by NGOs in the aged or disability care sectors.

80 In relation to Illustrative Examples 2 to 5, HoTARAC also suggested amendments could provide clarity on why the performance obligations in Illustrative Example 5 were assessed as not being sufficiently specific whereas performance obligations in Illustrative Example 4 were assessed as sufficiently specific. Similarly, amendments can improve the apparent reconciling issues between Illustrative Examples 2 to 4 on the sufficiently specific criterion with related guidance in AASB 15 paragraphs F20, F24 and F25 and in ITC 50 itself. Additional Illustrative Examples in AASB 1058 would also assist.

81 One survey respondent suggested specific guidance should be given that grants with specified periods and acquittal requirements should be dealt with under AASB 15.

82 Another survey respondent commented that examples from real situations must be given.

83 HoTARAC also suggested reviewing Illustrative Examples for the following examples:

- (a) funding provided on a cost recovery basis - public sector entities often receive grants to compensate for costs incurred to deliver goods and services. From the ITC 50 examples, it appears that these may be viewed as revenue under AASB 15, despite challenges identifying a sufficiently specific criterion as a proxy for a performance obligation; and
- (b) contracts with refund clauses – in HoTARAC’s view it would be beneficial to clarify the significance of a refund clause in a contract in assessing the sufficiently specific criterion. For instance, is the existence of a refund clause more fundamental to the determination of enforceability in the NFP sector where transactions are often undertaken in accordance with non-justiciable agreements? The refund clause is often a protective clause ensuring that funding is used for the designated purpose. Moreover, contracts with clear performance obligations that omit the clause contain an implied refund clause at law as noted by AASB 15 paragraph F13.²² In practice, a refund clause is not often used in the assessment. It appears inappropriate to conclude an obligation as sufficiently specific if what is to be delivered is generic in a contract with a refund clause. In contrast, sufficiently specific appears to be met where the performance obligation is clear but a refund clause is absent. Therefore, the refund clause seems redundant in practice. It would be helpful to provide a simple example where it is relevant for the assessment.

22 An extract of this paragraph is included in Appendix 1.

Customary business practices

- 84 HoTARAC notes that paragraphs 10 and F9 of AASB 15 indicate that implied terms or customary business practice may comprise sufficiently specific enforceable terms.²³ The Illustrative Examples in Appendix F and ITC 50 do not appear to offer any guidance for preparers or auditors on how this influences the outcome of the determination. Consequently, this may bias determinations to a focus on formally agreed, contractual terms which are often easier to apply in practice.
- 85 A survey respondent also questioned whether the specificity needs to be documented in a particular agreement.
- 86 An attendee at Roundtable 3 commented that entities are sometimes not necessarily looking at the substance over the form of the agreement and understanding implied promises which can usually be substantiated through customary business practices. They are not sure the AASB can give more guidance about this but perhaps getting preparers to focus on the substance and evidence of the implied promises and practice would help them make decisions.

What the AASB has done so far

AASB considerations when developing AASB 15 Appendix F documented in the Basis for Conclusions²⁴

- 87 In developing AASB 15 Appendix F the Board considered whether to identify particular conditions as essential for treating a promise to transfer a good or a service as sufficiently specific. The Board concluded that:
- (a) no particular condition regarding a promise to provide a good or service would ensure the sufficiently specific criterion 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.
- 88 The Board also noted that the IPSASB had a related project on revenue, which uses IFRS 15 as a starting point and looks at the type of modifications that would be required for IFRS 15 to be suitable for application to a wide range of revenue transactions in the public sector. The Board noted that it would consider undertaking a project to review the guidance to AASB 15 following the completion of these projects.
- 89 The IPSASB issued [IPSAS 47 Revenue](#) in May 2023 which will be effective for periods beginning on or after 1 January 2026. IPSAS 47 broadens the approach in IFRS/AASB 15 to address public sector transactions. Two aspects adapted for the public sector are binding arrangements and compliance obligations.²⁵

What the AASB has done to support consistent application?

- 90 This section includes details of what the AASB has done to support the consistent application of the determination of whether an agreement includes SSPOs.
- 91 *AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* added Appendix F to AASB 15.

23 An extract of these paragraphs is included in Appendix 1.

24 See paragraphs BC38 to BC49 and BC72 of *AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*.

25 Further details and analysis of IPSAS 47 are included in Agenda Item 3.2.2 [Alternative Models](#) (October 2023)

- 92 *AASB 2019-6 Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities*²⁶ extended the implementation period for research grants received by NFP entities and added and amended Illustrative Examples including examples regarding the application of the sufficiently specific criterion in the context of research grants.

26 This is also relevant to ITC 50 Topic 7: *Accounting for research grants* that the Board will consider at a future meeting.

93 The table includes details of the development of educational material.

AASB Board meetings relating to the development of educational material		Educational material	
		Outputs	Details
<i>June 2021</i>		AASB Staff FAQs: AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 16 Leases.	Relevant Staff FAQ sections (5, 6, 7, 8, 11 and 14) provide guidance and information on determining sufficiently specific.
94 At its June 2021 meeting, the Board considered feedback from a number of stakeholders, including auditors and preparers, that the term sufficiently specific was unclear and there was confusion in practice as to how the term is to be applied. These stakeholders requested further guidance be included in the standard (in addition to existing implementation guidance and Illustrative Examples included in AASB 15) to highlight examples of when the sufficiently specific criterion is met, and not met.	Key facts: Accounting for Income of Not-for-Profit Entities.		This includes that the determination of sufficiently specific requires judgement but the agreement should include conditions regarding the nature or type, cost or value, quantity and period of supply/service for the goods/services.
95 The Board was informed that the varying interpretations of sufficiently specific and judgement involved has resulted in diversity even within similar agreements depending on a preparer/auditor stance on how specific the performance obligations are required to be to meet the sufficiently specific threshold and therefore comparability of NFP financial statements is reduced.			Income of not-for-profit entities: AASB 15 and AASB 1058 – AASB staff education session
<i>September 2021</i>			
96 The Board decided to add a narrow-scope project to its work program. The Board noted the short-term nature of the project and observed that several matters raised by the stakeholders will be considered through the PIR of AASB 1058. The issues to be addressed in the project were to be considered further at a future meeting. ²⁷			97 At its September 2021 meeting, the Board considered further feedback on sufficiently specific. An additional stakeholder had provided feedback that the Standards (including guidance added by AASB 2016-8) contain sufficient guidance for the determination of sufficient specificity and were concerned that the inclusion of additional illustrative Examples may lead to further confusion. If Illustrative Examples are used by preparers and auditors without a proper understanding of the service (i.e. without proper context), and instead are applied to a variety of similar/adjacent services, this can lead to further confusion in determining sufficient specificity.
98 Staff considered this feedback and, on balance, decided that providing additional guidance or educational material would assist in providing clarity in applying the principles in the standard, as well as reducing diversity in practice and costs to preparers.			

27 [June 2021 Meeting Minutes.](#)

AASB Board meetings relating to the development of educational material	Educational material	
	Outputs	Details
<p>99 Staff considered that amendments to the mandatory requirements to address the request for clarification of the principle would be more appropriately included as part of this NFP Income PIR as they will involve a review of one of the fundamental principles of the standard. The Board decided to develop additional educational material regarding factors to consider when assessing whether a contract has SSPOs.²⁸</p> <p><i>August 2022</i></p> <p>100 At the August 2022 meeting, staff recommended the sufficiently specific criterion and legal interpretation of agreements issues be considered as part of this NFP Income PIR.</p>		

Relevant research

101 Staff performed a literature review on the topics to be considered as part of the PIR process.²⁹ Key implementation issues noted in academic and non-academic research relevant to this topic included:

- (a) applying the Standards requires significant judgement and gives rise to significant practical challenges (Gilchrist, West and Zhang 2023);³⁰
- (b) applying the terms performance obligation and sufficiently specific are challenging in practice. This can make identifying whether a contract with a customer exists difficult. In addition, there are inconsistencies in outcomes when applying the Standards. For example, capital grants are deferred, and operational grants are expensed. However, there do not seem to be any conceptual differences between the types of grants (e.g. both are enforceable and specific);³¹
- (c) recognition of grant funding can be challenging;³² and
- (d) inconsistent outcomes have led to increased costs by preparers, their accountants and auditors.³³

102 Staff have been monitoring related publications and are not aware of any other recent publications on the topic.

IFRS 15 Revenue from Contracts with Customers post-implementation review

103 The IASB has issued the Request for Information (RFI) as part of the IFRS 15 PIR and it has been issued by the AASB as [ITC 53 Request for Comment on IASB Request for Information on Post-implementation Review of IFRS 15 Revenue from Contracts with Customers](#). The Australian comment period closed on 8 September 2023 with all comments to be received by the IASB by 27 October 2023.

104 The RFI sought information on identifying performance obligations in a contract and asked for feedback on the following questions (RFI question 2):

- (a) Does IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract? If not, why not?

Please describe fact patterns in which the requirements:

- (i) *are unclear or are applied inconsistently;*
- (ii) *lead to outcomes that in your view do not reflect the underlying economic substance of the contract; or*
- (iii) *lead to significant ongoing costs.*

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects

29 See [Agenda Item 9.3 NFP domestic PIRs – academic and non-academic literature reviews](#).

30 Gilchrist, D.J., West, A. and Zhang, Y. (2023), Barriers to the Usefulness of Non-profit Financial Statements: Perspectives From Key Internal Stakeholders. Australian Accounting Review, 33: 188-202. <https://doi.org/10.1111/auar.12401>

31 See <https://intheblack.cpaaustralia.com.au/accounting/nfp-accounting-revenue-income>; <https://www.charteredaccountantsanz.com/news-and-analysis/insights/perspective-articles/insights-from-the-implementation-of-aasb-1058>; and <https://www.pitcher.com.au/insights/ongoing-issues-with-income-recognition-for-nfp-entities/>

32 For example, <https://www.charteredaccountantsanz.com/news-and-analysis/insights/perspective-articles/insights-from-the-implementation-of-aasb-1058>

33 For example, <https://www.pitcher.com.au/insights/ongoing-issues-with-income-recognition-for-nfp-entities/>

entities financial statements and the usefulness of the resulting information to users of financial statements.

(b) Do you have any suggestions for resolving the matters you have identified?

105 The IASB is also asking for feedback on determining the transaction price (section 3) and determining when to recognise revenue (section 4) which may be relevant to this topic.

106 The IASB has indicated the RFI feedback will be due in H1 of 2024 on its work plan.

Staff analysis and preliminary views

107 This section includes staff analysis of the feedback received, preliminary views on whether any action may be required to address the feedback and what may be done to respond to it. Appendix A and B of Agenda Paper 7.1, sets out the framework to support the Board in considering stakeholder feedback and determining what action, if any, may be required. Staff plan to formalise the recommendations on the next steps including consideration of the magnitude of the issues identified, likely timeframe of possible actions, and their expected benefits and associated costs and present them to the Board at a future meeting.

Feedback themes/areas	Staff analysis and preliminary views
Sufficiently specific is difficult to apply in practice, is judgemental and leads to differences in application	<p>108 Staff acknowledge that the assessment of the sufficiently specific criterion requires judgement which was considered by the Board when developing the Appendix F requirements (paragraphs BC38 to BC49). Nevertheless, the feedback on ITC 50 questions 1 to 3 is aligned with the feedback received prior to developing ITC 50 (i.e. that the sufficiently specific criterion is difficult to apply in practice, is judgemental and leads to differences in application which are all evidenced in the comments received and considered further below). However, staff noted views that reasonable conclusions can be reached.</p> <p>109 In relation to the comment that some NFP entities are taking the lead on arranging funding so they can achieve/manage the accounting outcome they want, staff consider this may have also occurred in the FP sector during the implementation of AASB 15 where contracts were not specific enough and therefore do not consider this an NFP-sector-only occurrence.</p> <p>110 In staff's view, the feedback indicates that the sufficiently specific criterion continues to be relevant in determining the existence of performance obligations and therefore there does not appear to be a need for a wholesale change of the principle as such. However, the feedback received suggests further clarification and guidance (whether through a standard-setting project or otherwise) may be needed. Staff note that some stakeholders (but not the majority) who commented unfavourably on the sufficiently specific criterion also would prefer to achieve the matching principle as opposed to requesting further clarification on the existing approach. This feedback is addressed in Agenda Paper 3.2.2 <i>Alternative Models</i> (October 2023).</p>
FP requirements compared to NFP requirements	<p>111 Staff noted that some comments suggest the perception exists that the requirements applicable to NFP entities are more stringent than the ones applicable for FP entities.</p> <p>112 In response to comments received from stakeholders about the differences between FP and NFP entity accounting requirements, during development the Board considered extending the application of AASB 120 to NFP entities however decided this was not appropriate.³⁴</p> <p>113 The intention of Appendix F, as outlined in paragraph 3 was to explain and illustrate the application of AASB 15 from the perspective of NFP entities, therefore providing assistance, in line with the transaction-neutrality principle, to NFP entities to apply the AASB 15 requirements (that were drafted by the IASB with the intention to be applied by FP entities).</p>

³⁴ More details are included in Agenda Paper 3.2.2 *Alternative Models* (October 2023).

Feedback themes/areas	Staff analysis and preliminary views
	<p>114 Nevertheless, if further clarifications to some requirements in Appendix F are made, as considered in the 'Requirements of AASB 15 Appendix F' section below, staff consider the determination of sufficiently specific by NFP entities may become less onerous and improve consistency in the accounting outcomes for NFP entities.</p>
NFP resourcing	<p>115 Staff acknowledge the resourcing issues faced by the NFP sector. Staff note that whilst judgement is required to apply both the FP and NFP requirements of AASB 15, when developing the AASB 15 NFP guidance, the AASB recognised (paragraphs BC38 to BC39) that the nature of transfers to NFP entities gives rise to issues that are more prevalent compared to the FP sector, when determining which terms and conditions attached to assets transferred to an NFP entity include performance obligations.</p> <p>116 Based on the feedback, staff's preliminary view is that there is merit in exploring how to make guidance material more accessible and understandable to assist preparers to apply the requirements of Appendix F.</p>
Preparer and auditor differences in judgement	<p>117 The feedback received on these differences is consistent with the feedback received prior to the development of ITC 50. Staff consider the preliminary view included in paragraph 122, may assist in reducing the differences in judgement.</p>
Similar agreements being accounted for differently	<p>118 The feedback received on these differences is consistent with the feedback received prior to the development of ITC 50. Staff consider the preliminary view included in paragraph 122, may assist in reducing similar agreements being accounted for differently.</p>
Examples included in ITC 50	<p>119 The feedback received on the ITC 50 examples demonstrates the judgement required in determining sufficiently specific and the differences in its application. Differences are not being experienced for clear examples (ITC 50 examples (a), (b) and (h)) however where further judgement is required differences in application occur.</p> <p>120 Staff's preliminary view is that the feedback received on the ITC 50 examples should be considered when reviewing the requirements of Appendix F and considering further clarification or guidance.</p>
Requirements of AASB 15 Appendix F	<p>121 Staff acknowledge that feedback provides evidence that stakeholders are unsure how to interpret some language and the interaction between paragraphs in Appendix F in respect of the sufficiently specific criterion.</p> <p>122 From the feedback received on the requirements of paragraphs F20 to F28 and that these requirements apply to all NFP entities applying Appendix F, staff's preliminary view is that there may be merit in undertaking some action to address the feedback, for example a narrow-scope standard-setting project to review the need to clarify and provide additional guidance to assist with the judgement NFP entities are required to apply and increase consistent application of the sufficiently specific criterion. As noted in paragraph 107 above, subject to the Board's feedback at this meeting, staff will further analyse options for the possible next steps to address the feedback considering the significance of the issues, cost versus benefits and timelines of the next steps available to the Board.</p> <p>123 As outlined in Agenda Paper 3.2.2 (October 2023), IPSAS 47 <i>Revenue</i> and the INPAG Exposure Draft, include revenue proposals that may assist in this regard, as well as any potential amendments to AASB 1058. Subject to the Board's decision whether, how and when to address the feedback from the PIR, staff also suggest monitoring the feedback received as part of the IFRS 15 PIR and consider the impact of any decisions on IFRS/AASB 15 made by the IASB.</p>

Feedback themes/areas	Staff analysis and preliminary views
Dual purpose arrangements - judgement influenced by legal interpretations	<p>124 KPMG raised concerns about dual purpose arrangements and the diversity in accounting for some arrangements entered into for the dual purpose of transferring goods or services as well as to help the entity achieve its objectives. This arises from the rebuttable presumption that the transaction price is wholly related to the transfer of goods or services. The presumption can only be rebutted when the transaction price is partially refundable. KPMG made recommendations to assist in this area (see paragraphs 69 to 70).</p> <p>125 From the information provided, staff infer that the diversity may be occurring depending on the weight given to the assessment of the donor/grant provider’s intent in contrast to the terms of the agreement. Staff consider if funds are fully refundable under an agreement that meets the requirements to be accounted for applying AASB 15 (i.e. funds can be allocated to performance obligations) and there is also a donation element (AASB 1058), the AASB 15 and AASB 1058 amounts should be able to be clearly identified.³⁵ Staff also consider the intent of the grant provider in relation to refunds and the separately identifiable performance obligation element to the in-kind donation element should also be reflected in the agreement because it may change the substance of the agreement.</p> <p>126 Staff note only KPMG raised this issue and therefore staff consider this may not be an area of major concern warranting any standard-setting work unless the Board would decide to revisit their conclusions made when finalising the AASB 15 Appendix F.</p> <p>127 As outlined in paragraphs BC73 to BC81 in AASB 1058 (and in corresponding AASB 15 paragraphs BC50 to BC57), the Board initially explored using a measurement-driven ‘residual’ approach to identify donation components of contracts with customers. However, the Board decided not to proceed with this approach having regard to (a) the risk of mistakenly identifying donation components in contracts with customers, because of measurement error; 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. In ED 260, the Board proposed that an NFP entity be required to account for a separately identifiable donation component separately from the revenue that is recognised when the entity transfers a good or service, where that donation component is material. The donation element under this approach required a qualitative assessment of whether the customer intended to make a donation and whether it was separately identifiable from the goods or services promised in the contract. Following feedback received (e.g. this approach does not provide information that justifies the costs and it was unworkable to impose a ‘customer intention’ test), the Board discussed that this approach overcomplicates the accounting, implies that the NFP entity needs to ‘stand in the shoes’ of the transferor, and prioritises non-refundability as a distinguishing factor. The Board therefore decided to include the rebuttable presumption in paragraph F28.</p> <p>128 If the Board considers it necessary to look into the issue in more detail, next steps could include staff obtaining more information about why the Board assessment of the relationship between refundability and the satisfaction of the performance obligation (i.e. that full refundability in the event the entity does not deliver the promised goods or services does not indicate a donation element) would need to be reconsidered without avoiding the need to assess the intent that attracted significant concerns in response to ED 260.</p>
Other guidance	<p>129 Staff acknowledge stakeholder feedback to include existing FAQs in the Standards and additional guidance to assist consistent application (with varying views of whether it is needed or whether standard-setting is required to clarify the sufficiently specific requirements in Appendix F).</p> <p>130 Staff’s preliminary view is that the narrow-scope project, suggested in paragraph 122, could be undertaken first to clarify the requirements of paragraphs F20 to F28 and provide further application guidance and/or clarifications. Following this, and subject to a cost/benefit analysis and Board’s approval, guidance material could also be reviewed and amended (e.g. existing FAQs</p>

35 AASB 15 paragraph F30: “Where the presumption is rebutted, the entity shall disaggregate the transaction price and account for the component that relates to the transfer of promised goods or services in accordance with this Standard. The remainder of the transaction price shall be accounted for in accordance with AASB 1058. Whether the element not related to the performance obligation is material, and therefore needs to be accounted for separately, shall be assessed in relation to the individual contract, without reassessment at an aggregate or portfolio level.”

Feedback themes/areas	Staff analysis and preliminary views
	<p>included in the standard) or additional guidance developed unless already incorporated in the said potential narrow-scope project.</p> <p>131 Staff also note that when preparing this paper, the Staff FAQs, Key facts document and educational webinar might not be as easily accessible as they could be by stakeholders. This is consistent with stakeholder feedback that guidance is included in multiple places (for example, AASB 15, AASB 1058 and Staff FAQs), and staff consider this could contribute to the difficulties applying the income recognition requirements. Depending on the Board’s decision whether and how to address the PIR findings, an effort to consolidate educational material and make it more accessible (e.g. via Illustrative Examples) could be considered.</p>

Question to Board members

Q1: Do Board members have any questions or comments on the feedback, staff analysis or preliminary views for this topic?

Appendix 1 Relevant extracts from AASB 15

Promises in contracts with customers

- 10 A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a customer creates enforceable rights and obligations.
- 25 Performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer. For example, a services provider may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the customer as the tasks are performed. Therefore, those setup activities are not a performance obligation.

Performance obligations satisfied over time

- 35 An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:
- (a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see paragraphs B3–B4);
 - (b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or
 - (c) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date (see paragraph 37).

Contract

- F9 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 refer to that entity's customary practice in performing or conducting its activities.

Enforceable agreement

- F13 A sufficiently specific, written agreement can be enforceable even if the particular terms do not include refund or other enforcement provisions, since Australian law generally provides remedies of specific performance or damages for breach of an agreement. Agreements that explicitly state they are not intended to be legally binding may nonetheless become enforceable agreements if the parties act in a manner that is inconsistent with the stated intention. Agreements that lack elements of a contract may nonetheless become legally enforceable if there is conduct by one party that causes the other party to act in reliance on such conduct. The enforceability of agreements does not depend on their form. For example, documents such as Memoranda of Understanding, Heads of Agreement and Letters of Intent can constitute legally enforceable agreements; a formal contract is not required.

Identifying whether a performance obligation exists

- F20 Paragraphs 22 and 30 of AASB 15 require that to enable an entity to identify the performance obligations that it should account for separately, each promise to transfer goods or services needs to be distinct – individually, or if not individually, as a bundle combined with other promises. The specificity of the promise to transfer goods or services can be quite different in the for-profit and not-for-profit sectors. A necessary condition for identifying a performance obligation of a not-for-profit entity is that the promise is sufficiently specific to be able to determine when the obligation is satisfied. Judgement is necessary to assess whether a promise is sufficiently specific. Such judgement takes into account any conditions specified in the arrangement, whether explicit or implicit, 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; and

(d) the period over which the goods or services must be transferred.

- F21 In the not-for-profit context, a service can include an arrangement whereby one entity undertakes specific activities on behalf of another entity. Activities may include service delivery, research or asset management, among others. However, performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer. For example, research activities undertaken to develop intellectual property that the entity will license to a customer are not themselves a transfer of goods or services to the customer.
- F22 Whether a promise is sufficiently specific so as to qualify as a performance obligation is assessed separately for each promise and will depend on the facts and circumstances. No specific number or combination of the conditions noted in paragraph F20 need to be specified in an agreement for the promise to be sufficiently specific. In addition, there may be other conditions that need to be taken into account in applying the judgement above that may indicate the promise is sufficiently specific.
- F23 Conditions specified regarding the promised goods or services may be explicit or implicit in an agreement. Paragraph 24 states that the performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in that contract. This is because a contract with a customer may also include promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer. A not-for-profit entity may make a statement of intent to spend a transfer in a particular way. As noted in paragraph F17(b), a statement of intent alone is generally not enough to create a performance obligation. Some element of the contract will need to be enforceable and past practice would need to support the customer expectation.
- F24 In relation to paragraph F20(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. For example, a not-for-profit entity may provide a number of services under its charter such as counselling and housing to disadvantaged youth. Where it receives a transfer to be used for an unspecified purpose over a particular time period, such a promise would not meet the 'sufficiently specific' criterion.
- F25 Some not-for-profit entities have a single purpose charter, such as to provide counselling services. However, it is unlikely that an entity's charter or stated objectives would be specific enough to require the recognition of contract liabilities under a contract that provided the entity with a grant for a specified period of time but did not also adequately identify the goods or services to be provided to other parties. Where entities receive a transfer to be used over a particular time period for specified services, such a transfer could meet the 'sufficiently specific' criterion. Specifying the services to be provided under the arrangement and the stipulation to use the transferred funds over a particular time period enables a determination of when the services have been provided. However, if the transfer does not specify the period over which the entity must use the funds or the services to be provided (such as the number of counselling sessions), the entity would not meet the 'sufficiently specific' criterion because it would be unable to determine when it meets the performance obligations.
- F26 An agreement may include a condition that the entity undertakes an acquittal process to demonstrate progress toward transferring goods or services. For example, the terms of an agreement may require the entity to report on progress toward specified outputs or outcomes in an acquittal process. Such an acquittal process may provide evidence of a promise to transfer goods or services that is sufficiently specific, depending on the requirements of the acquittal process and other facts and circumstances. An acquittal process may also enable a determination of progress toward satisfaction of the performance obligation.
- F27 Where a contract provides a transfer of a financial asset for an entity to acquire or construct a non-financial asset (eg a building or an intangible asset) that is to be controlled by the entity, the contract does not establish rights and obligations for the transfer of the non-financial asset to the transferor or other parties. Accordingly, the contract is not a contract with a customer, and hence is not accounted for in accordance with AASB 15. Such contracts are instead accounted for in accordance with paragraphs 15–17 of AASB 1058. In this case, the transferor has made an in-substance transfer of the non-financial asset to the entity. The entity would retain control of the non-financial asset and use it in its operations, such as to produce goods or services for transfer to other parties under other contracts. A contract to transfer a financial asset for an entity to acquire or construct a non-financial asset that is to be controlled by the entity may be part of a contract that includes other conditions that give rise to performance obligations that require the entity to transfer goods or services to other entities. Those performance obligations are accounted for under AASB 15.