

Hot Topics

Fixing the not-for-profit entity income recognition model

“The income recognition model in AASB 1004 *Contributions* is flawed and needs replacing” is the message from constituents to the AASB.

To address this concern the AASB issued for comment [ED 260 *Income of Not-for-Profit Entities*](#) in April 2015.

The ED’s most important proposal is the removal of the “reciprocal v non-reciprocal” income recognition requirements of AASB 1004. It proposes they be replaced with income recognition requirements that are dependent on the answer to a new question.

“Does the transferred asset give rise to a performance obligation under a contract with a customer?”

A yes answer sees the entity apply [AASB 15 *Revenue from Contracts with Customers*](#), with the consideration allocated to performance obligations and income deferred until the performance obligation is satisfied. In contrast, a no answer to this question would see the entity immediately recognising income under the replacement standard of AASB 1004.

ED 260 includes material on “enforceable agreements” and “sufficiently specific transfer” to assist not-for-profit sector constituents to apply the proposed income recognition requirements.

Other proposals in the ED are to broaden the fair value on initial recognition principle to cover all acquisitions of non-financial assets where the vendor or lessor intended to make a donation and to leave unchanged the existing requirements for the recognition of volunteer services. No transitional relief is proposed.

In June 2015, the AASB held a series of education sessions and roundtables on the proposals. Generally, participants agreed that the AASB should proceed with finalising the proposals in ED 260, notwithstanding that some disagreed with certain proposed principles. The main concern raised was that the ED does not go far enough in identifying liabilities when a not-for-profit entity receives assets on the condition that those assets be used in a generic way and/or expended over a specified period.

This project is the AASB’s highest priority not-for-profit specific project. Below are links to material from organisations on this project that you may find useful and information from the AASB.

Material

BDO Accounting News Better matching of income and expenses for not-for-profit entities
<http://www.bdo.com.au/resources/newsletters/accounting-news/accounting-news.-may-2015/better-matching-of-income-and-expenses-for-not-for-profit-entities>

Ernst & Young Accounting Update New income recognition proposals for not-for-profits
[http://www.ey.com/Publication/vwLUAssets/new-income-recognition-proposals-for-not-for-profits/\\$FILE/EY-new-income-recognition-proposals-for-not-for-profits.pdf](http://www.ey.com/Publication/vwLUAssets/new-income-recognition-proposals-for-not-for-profits/$FILE/EY-new-income-recognition-proposals-for-not-for-profits.pdf)

KPMG Reporting Update Proposals for income recognition of not-for-profit entities

<http://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Flash-Reports/Documents/15ru-005.pdf>

Probono Australia Changes to accounting standards – income for not-for-profits <https://shar.es/1qOVyJ>

PwC Changes to revenue recognition for not-for-profits – what does it mean?

<http://www.pwc.com.au/assurance/ifrs/assets/Revenue-Recognition-not-for-profits-Jun15.pdf>

William Buck AASB seeks not for profit views on grant income recognition <http://www.williambuck.com/About-Us/News/View-Article/ArtMID/3068/ArticleID/118/AASB-seeks-not-for-profit-views-on-grant-income-recognition>

Information

Education material provided by AASB staff to assist constituents to navigating the proposals in the ED:

- [Flowchart](#)
- [Scenarios](#)
- [Summary document June roundtable discussions](#)

If you have material relevant to the project on income of not-for-profit entities that you would like to share the AASB would love to hear from you. Please email Mark Shying standard@asb.gov.au