



# AASB Staff FAQs: AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases*

## Staff FAQs

(Developed jointly by BDO Australia and AASB Staff)

Prepared as at 5 March 2019 - document will be updated as more Staff FAQs are drafted.

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## Section 1: Scope and Effective Dates

### 1. When are AASB 9 Financial Instruments, AASB 15, AASB 16 and AASB 1058 mandatorily applicable to not-for-profit (NFP) entities?

	Mandatory Application		
Australian Accounting Standard	For Annual Reporting Periods beginning on or after	To 31 December year-ends on or after	To 30 June year-ends on or after
AASB 9	1 January 2018	31 December 2018	30 June 2019
AASB 15	1 January 2019	31 December 2019	30 June 2020
AASB 16	1 January 2019	31 December 2019	30 June 2020
AASB 1058	1 January 2019	31 December 2019	30 June 2020

Refer to FAQ 3 for early adoption considerations.

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### 2. Which Australian Accounting Standards are applicable to the recognition of income and revenue by NFP entities?

Does the annual reporting period begin on or after 1 January 2019?		
	Yes	No
	<p>Apply: AASB 15 and AASB 1058 (and AASB 1004 when accounting for parliamentary appropriations)</p>	<p>Apply:</p> <ul style="list-style-type: none"> <li>– AASB 111</li> <li>– AASB 1004</li> <li>– Interpretation 15</li> <li>– Interpretation 131</li> <li>– AASB 118</li> <li>– Interpretation 13</li> <li>– Interpretation 18</li> <li>– Interpretation 1042</li> </ul>

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### 3. If I early adopt AASB 9, AASB 15, AASB 16 or AASB 1058, what is the impact?

Standard the NFP entity has early adopted	Other standards which must also be early adopted	Reference
AASB 9	None	AASB 9 paragraph Aus1.3
AASB 15	AASB 1058	AASB 15 paragraph AusC1.1
AASB 16	AASB 15 and AASB 1058	AASB 16 paragraph C1, AASB 15 paragraph AusC1.1
AASB 1058	AASB 15	AASB 1058 paragraph C1

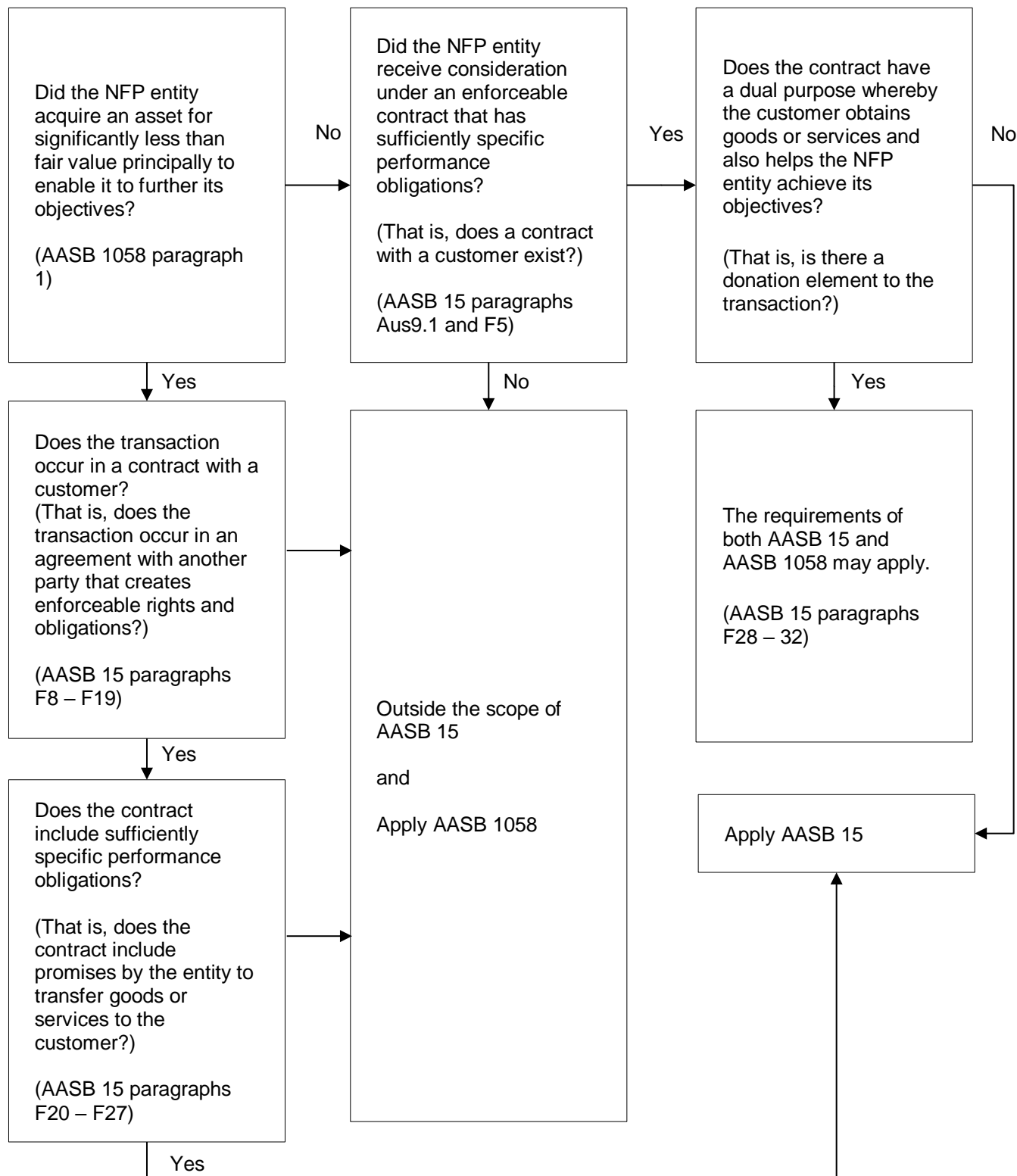
As a general matter, entities are also required to early adopt any related consequential amendments arising from the adoption of the above Standards.

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## 4. When would an NFP entity's revenue be within the scope of AASB 15?



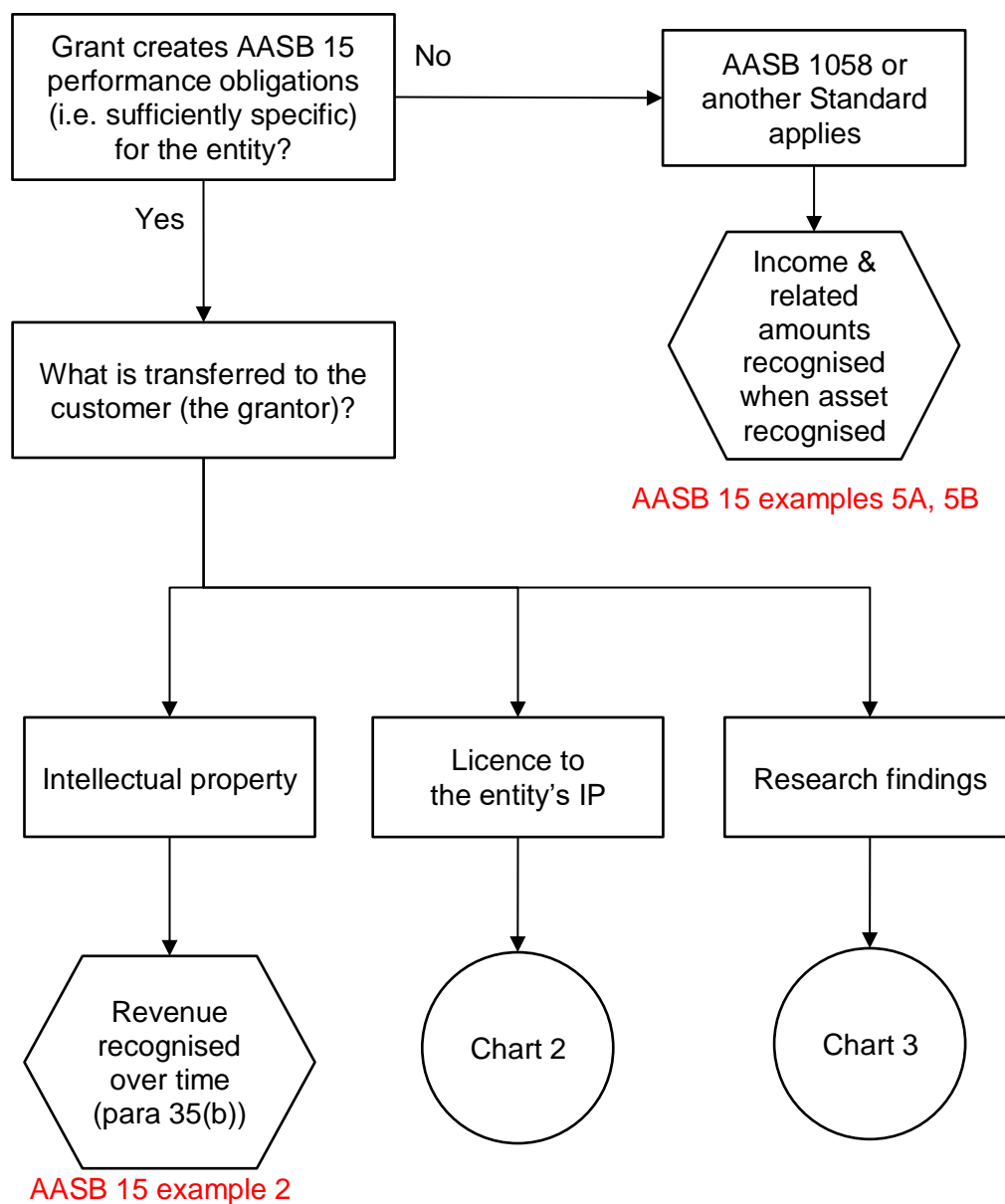
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## 5. If my entity performs research activities, which Standard do I apply when accounting for grants received and when do I recognise revenue?

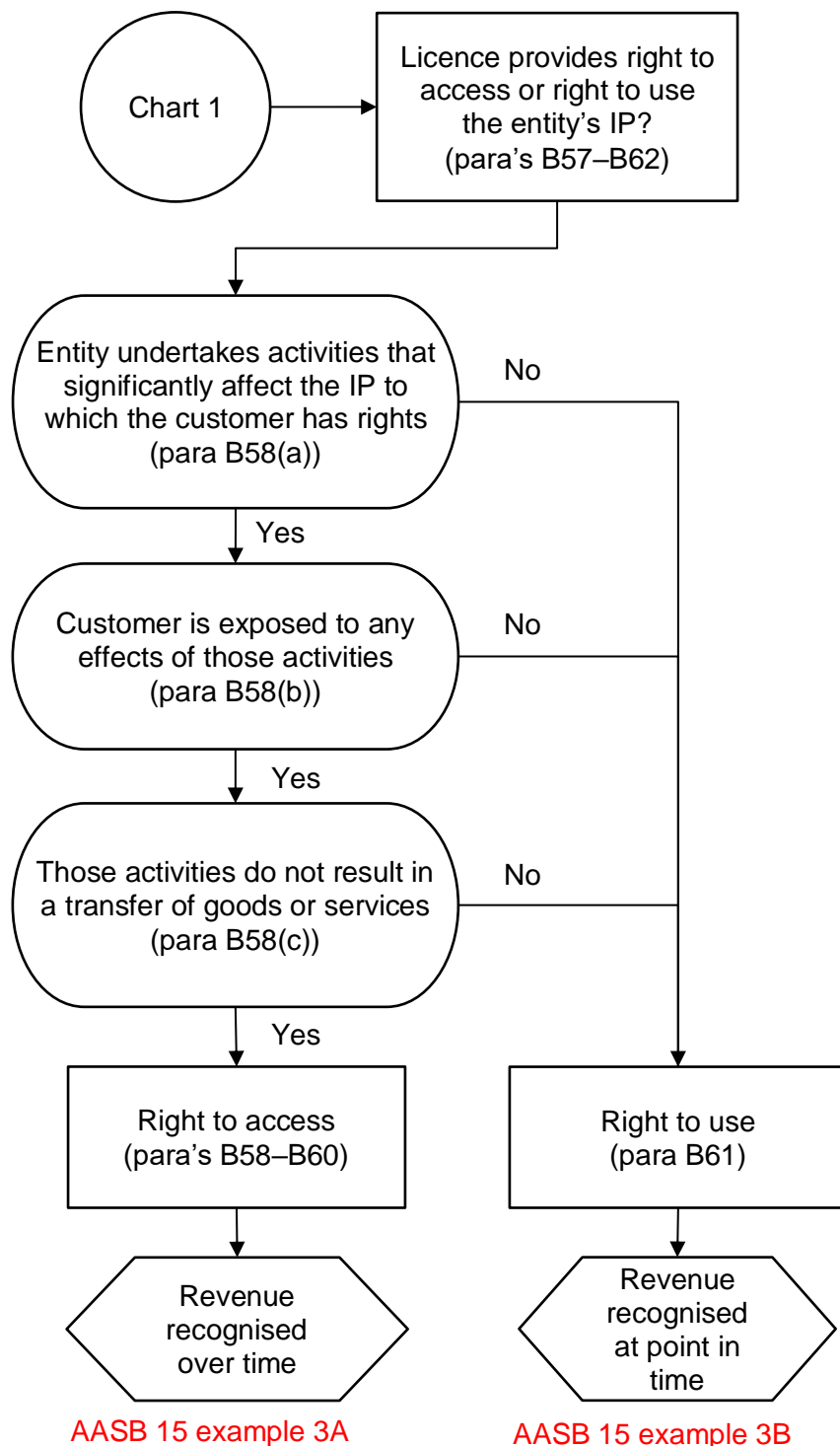
The AASB 15 illustrative examples noted below are part of the Australian illustrative examples for NFP entities added to AASB 15 by AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities.

**Chart 1**



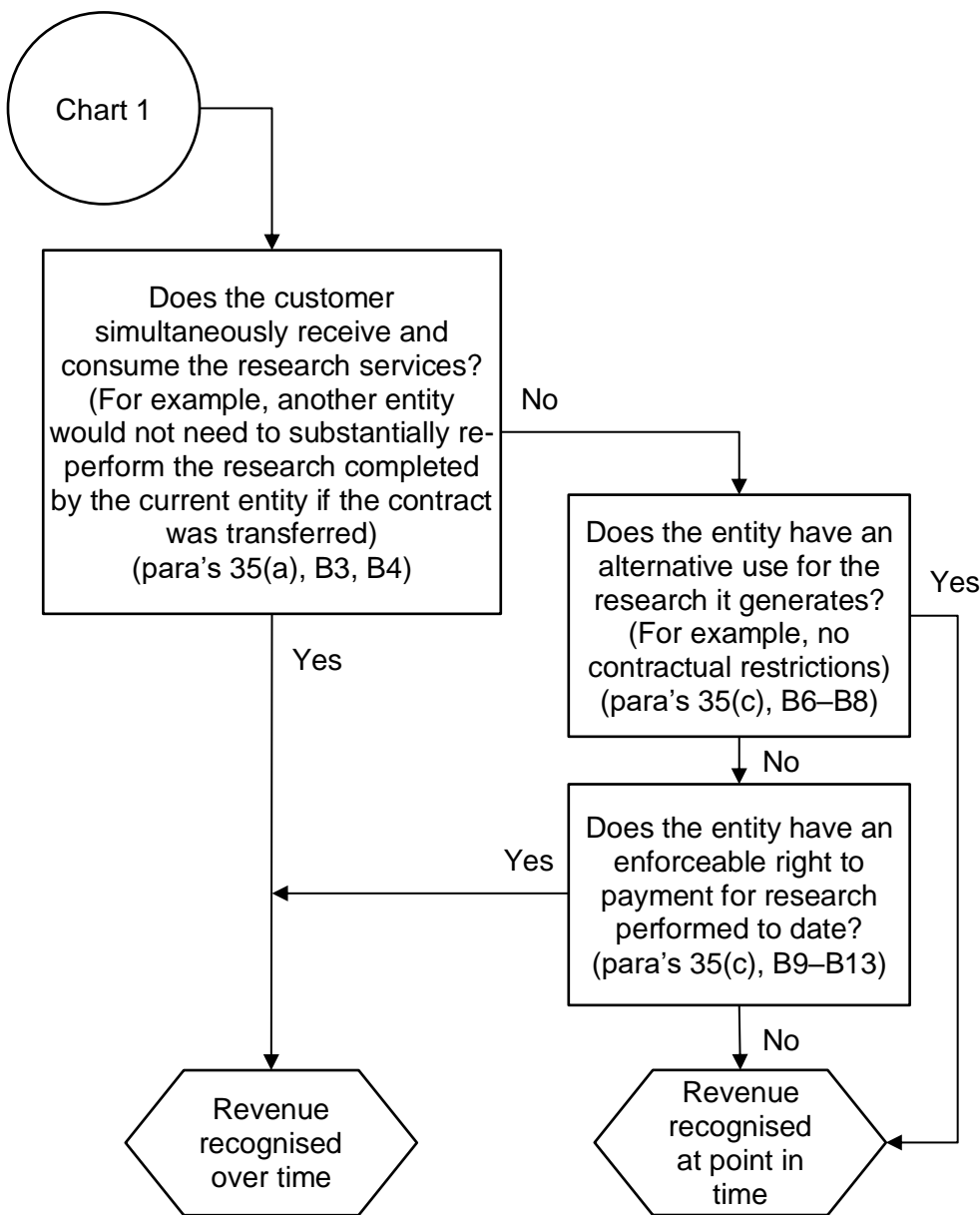
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Chart 2



# AASB Staff FAQs: AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 16 Leases

Chart 3



AASB 15 example 4A (para 35(a))  
AASB 15 example 4B (para 35(c))

AASB 15 example 4C



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### **Section 2: Identifying and recognising performance obligations in NFP schools**

#### **6. How does a NFP school account for non-refundable upfront fees charged to place prospective students on a waiting list?**

##### **Background**

For illustration purposes, assume that the application form sets out the following terms and conditions:

- Prospective students will be added to the waiting list to be considered for admission in their desired year in order of receipt of their application with some exceptions. In particular, priority of consideration will be given to:
  1. children of alumni;
  2. siblings of current and past students; and
  3. members of the school's parish,irrespective of when their applications were received. Enrolments may also be subject to an academic assessment of the prospective student and an interview with the head of campus.
- An application is a prerequisite to admission but not a guarantee of enrolment. All decisions to offer a place for enrolment remain at the discretion of the school.
- As applications for admission may exceed available places, payment of the waiting list fee does not guarantee an offer for admission.
- Payment of the waiting list fee is non-transferrable and non-refundable.

##### **Analysis**

#### **Is the contract within the scope of AASB 15 Revenue from Contracts with Customers?**

The school first considers whether the agreement is within the scope of AASB 15, by referring to AASB 15 paragraphs 9-21 and F5-F19 to determine whether there is a contract with a customer:

- there is a customer -- the parent – who has promised consideration in exchange for the school to add a prospective student to a waitlist (see AASB 15 paragraphs 9, F6-F7);
- there is a written agreement – the application form (see paragraphs 10, F8-F9);
- however, whether the agreement creates enforceable rights and obligations (ie whether there is a contract) depends on specific facts and circumstances of the agreement (see AASB 15 paragraphs 9-10, F10-F18). The school will need to consider whether the agreement (ie the





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application form) includes sufficiently specific requirements of each of the parties to create an enforceable right (see paragraph F12). For example:

- Does the form clearly set out what services the parent can expect from the school in exchange for paying the waitlist fee, such that the parent could legally enforce specific performance of those services by the school?
- Would the parent be able to demonstrate that the child has not been placed on the waitlist, that the school has not considered those on the waitlist in the correct order (taking account of the exceptions), or that the school has to consider those on the waitlist at all?
- Would there be legal remedies available to the parent if they were able to demonstrate that the school did not undertake the promised services? Legal remedies may be available under Australian law even if the agreement does not make any provision for a refund or other remedies for non-performance. For example the parent may have remedies of specific performance (require the school to place the prospective student on the waitlist, or specifically consider for admission if there are more places than those given to those meeting the exceptions) or damages for breach of the agreement (return of the fee) under Australian law (see paragraph F13 and F15).

The following sets out alternative solutions depending on whether the school concludes that the contract is enforceable or not.

### **Scenario A: The contract is enforceable and within the scope of AASB 15**

#### ***What are the performance obligations?***

Applying AASB 15 paragraphs 22-30 and F20-F27, in the above fact pattern the school concludes that there is one sufficiently specific performance obligation in the agreement, which is the promise to add the prospective student to the waiting list.

As the decision about enrolment remains at the discretion of the school, the school notes that it does not promise to consider each entry on the waitlist for possible enrolment and does not promise to consider each entry on the waitlist in a specified order, other than anyone in an “exception” criteria is considered first. It also does not promise to notify the prospective student of the outcome of the assessment for acceptance (unless successful). The school observes that these promises are not sufficiently specific to be able to determine when the obligation would be satisfied, and hence do not pass the necessary condition to be a performance obligation (see paragraph F20).

The school notes that the terms of the agreement do not relate to any future tuition, as the school has not made a promise to transfer future tuition services, and could not be compelled to do so under the agreement, as it does not promise (explicitly or implicitly) a place for future tuition (see paragraph B49).



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### ***When is the performance obligation satisfied?***

Applying AASB 15 paragraphs 31-38, the school determines that the single performance obligation to enter a prospective student on the waitlist is not transferred over time in accordance with any of the criteria in AASB 15 paragraph 35, and is therefore satisfied at a point in time in accordance with AASB 15 paragraph 38 when the prospective student is added to the waitlist. The revenue is therefore recognised at that point as per AASB 15 paragraph 31.

### **Scenario B: The contract is not enforceable and within the scope of AASB 1058**

In accordance with AASB 15 paragraph Aus9.1, if the arrangement is not enforceable, the school considers the requirements of AASB 1058.

The school applies AASB 1058 paragraph 3 and 9, and concludes that there are no related amounts to recognise in accordance with other Australian Accounting Standards. The school also considers paragraph 3, 15-17 and concludes that the transfer is not to enable the school to acquire or construct a recognisable non-financial asset to be controlled by the school.

The school therefore concludes that, in accordance with AASB 1058 paragraph 10, the application fee is recognised immediately as income in profit or loss.

#### **Staff observation**

The scenarios above only provide one illustration of such type of fees. An entity would need to apply judgment when assessing its agreement to understand whether the requirements of the parties in the agreement are sufficiently specific that to be enforceable by the customer. The entity would also need to consider whether there is a single sufficiently specific performance obligation or, multiple sufficiently specific performance obligations.

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### **7. How does NFP school account for non-refundable upfront fees that it charges when an offer of enrolment is accepted by a prospective student (ie when the student is accepted from the waiting list)?**

#### ***Background***

In this scenario, a NFP private school offers enrolment for tuition to a prospective student. Upon accepting an offer of enrolment, the prospective student must pay an upfront fee (sometimes referred to as an ‘acceptance fee’, ‘entry fee’ or ‘enrolment fee’). The enrolment form sets out the following terms and conditions relevant to the fee:

- upon payment of the fee, future tuition is guaranteed for the prospective student to commence in the agreed-upon year and for the period of the tuition contract, being 2 years;
- the fee is non-refundable and non-transferable; and
- the fee is not offset against any future tuition fees.

#### ***Analysis***

##### **Is the contract within the scope of AASB 15 *Revenue from Contracts with Customers*?**

The school applies AASB 15 paragraphs 9-21 and F5-F19 and concludes that the agreement is within the scope of AASB 15, as:

- there is a customer – the parent – who has promised consideration in exchange for future tuition (an ordinary activity of the school) to be provided to a specified child (see AASB 15 paragraphs 6, F6-F7);
- a contract exists, as:
  - there is a written agreement (see paragraphs 10, F8-F9); and
  - the agreement creates enforceable rights and obligations for the prospective student to receive tuition in the agreed-upon years. Despite the fee being non-refundable, the parent would be able to either enforce the agreement or be provided remedy under Australia law if the school did not provide tuition in the agreed-upon years (see AASB 15 paragraphs 10, F10-F18).

##### **What are the performance obligations in the contract, and is the non-refundable upfront fee one of them?**

The school considers the guidance on accounting for non-refundable fees in AASB 15 paragraphs B48-B51 and refers to paragraphs 22-30 and F20-F27 to assess whether the upfront fee relates to the transfer of a good or service separate to the provision of tuition in the future.



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The school notes that 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 (see AASB 15 paragraph 25). The non-refundable fee might cover internal administrative activities which enable the school to provide future tuition services to the student, but these activities do not transfer a promised good or service to the prospective student separate from the provision of future tuition and are therefore not a separate performance obligation (see paragraph B49)<sup>1</sup>.

The school therefore concludes that the non-refundable upfront fee does not represent a distinct performance obligation (see paragraph 25), but is instead an advance payment for future tuition services, and is recognised as revenue as the future tuition services are provided over the 2 year contract (see paragraphs 30 and B49).

### Staff observation

The question of whether non-refundable upfront fees relate to a separate performance obligation, distinct from the provision of future tuition services depends on the facts and circumstances of each contract. For example, unlike the example above, some upfront non-refundable enrolment fees might relate to the transfer of a good or service to a customer, such as the provision of uniforms or other equipment that the prospective student controls upon receipt.

In such a case, the school will need to evaluate whether the good or services provided to the prospective student are distinct from the provision of the tuition services (see paragraphs 22-30), and, if distinct, account for these as separate performance obligations.

Where the period of the tuition contract is under the control of the parent, rather than a set time, the school should consider paragraphs 10-12 to determine the appropriate duration of the contract

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<sup>1</sup> These types of examples are also very common in the for-profit sector. See, for example, illustrative example 53 of AASB 15 ([click here](#)), or the recent agenda decision of the IFRS Interpretations Committee addressing *Assessment of Promised Goods or Services* ([IFRIC Update January 2019](#))