



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

## Staff FAQs

(Sections 1 and 3 developed jointly by BDO Australia and AASB Staff)

Prepared as at 9 October 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
Apply: AASB 15 and AASB 1058 (and AASB 1004 when accounting for parliamentary appropriations)	Apply: – AASB 111                      – AASB 118 – AASB 1004                  – Interpretation 13 – Interpretation 15          – Interpretation 18 – Interpretation 131        – Interpretation 1042

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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

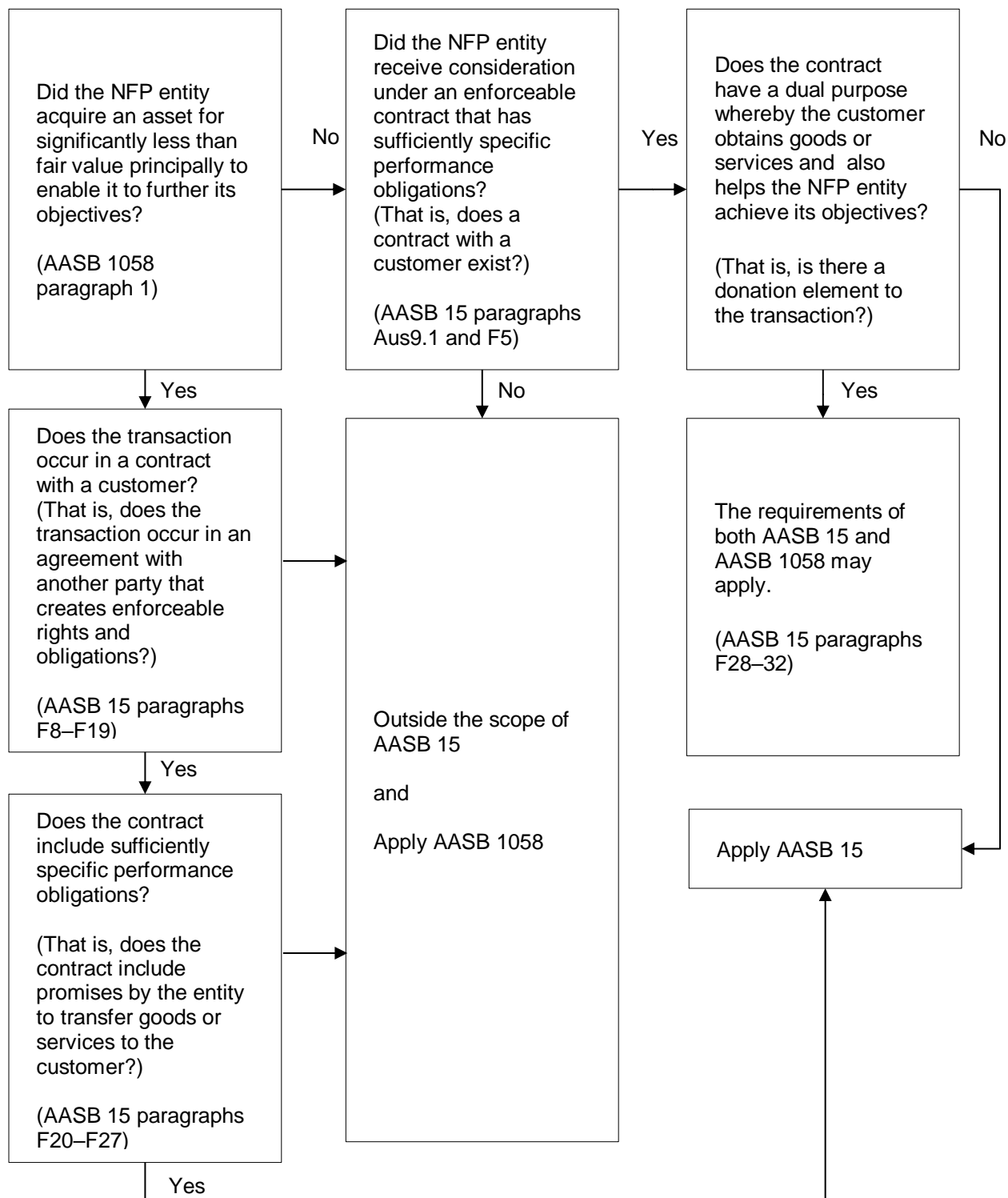
As a general matter, entities are also required to early adopt any related consequential amendments arising from the adoption of the above Standards.

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



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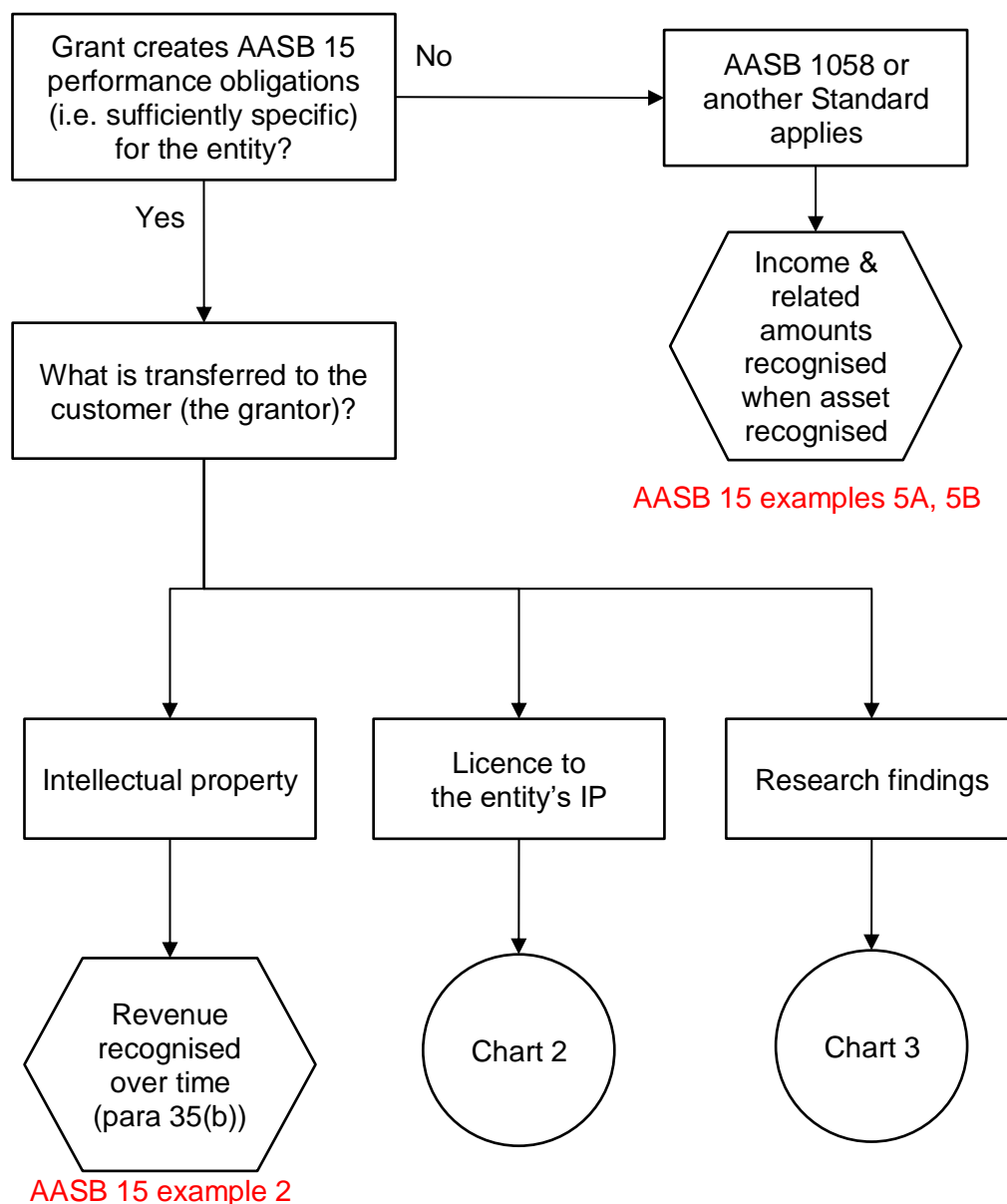
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## Section 2: Performance Obligations under Research Grants

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

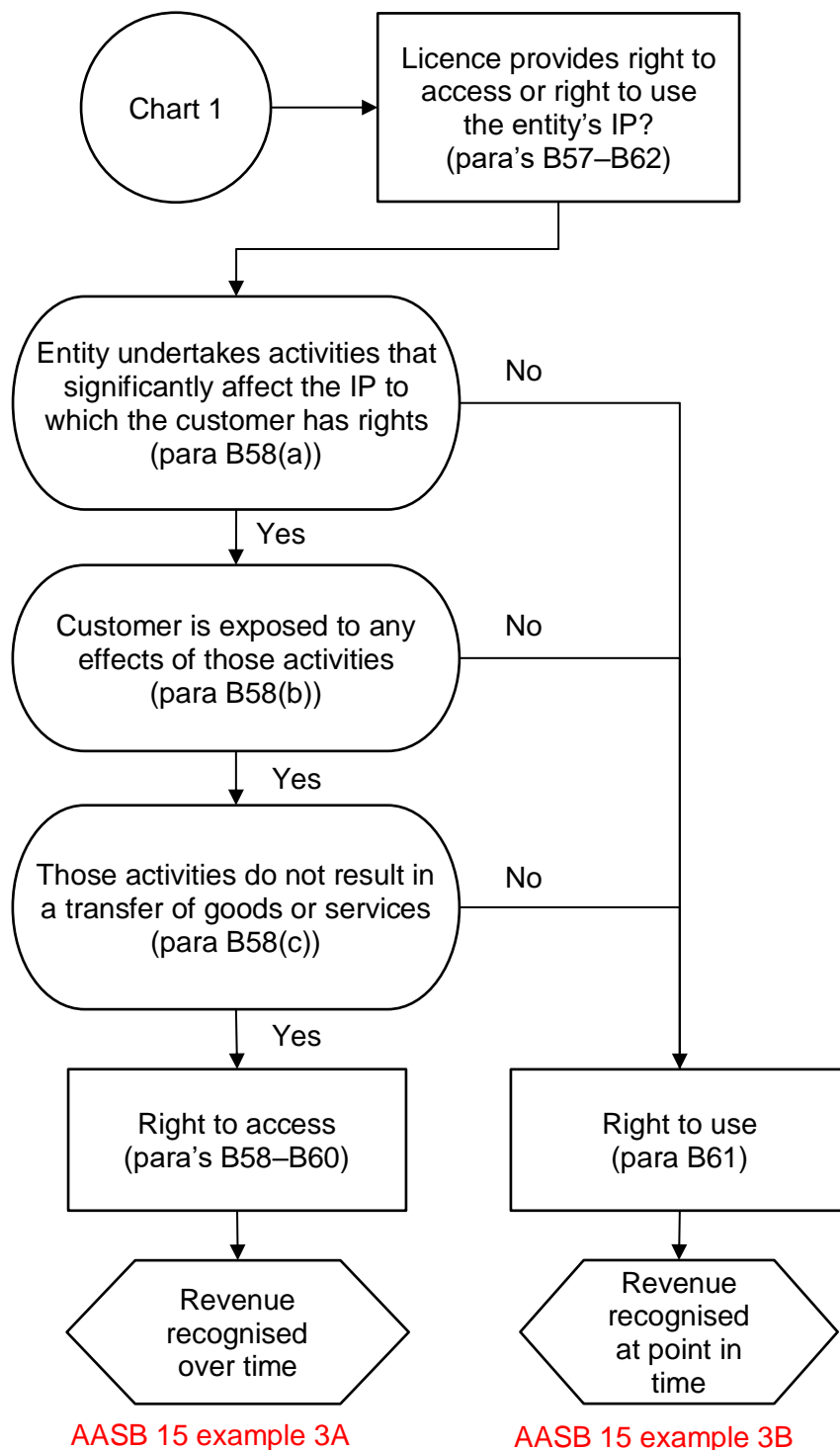
The AASB 15 illustrative examples noted below are part of the Australian illustrative examples for NFP entities added to AASB 15 by AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities (December 2016).

Chart 1



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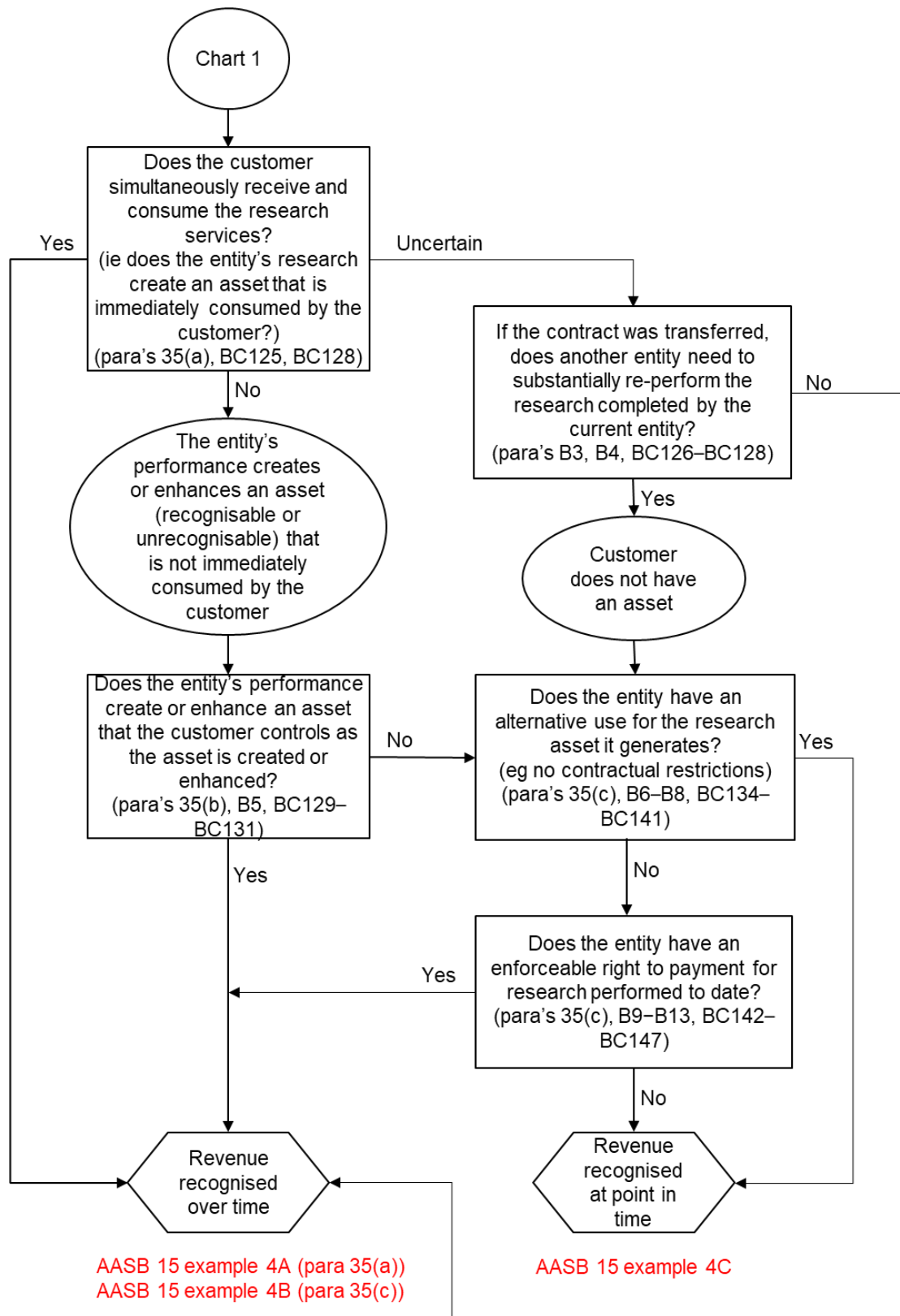
Chart 2





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Chart 3 – Research Findings



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### 6. How does a NFP entity that receives a research grant determine whether there are sufficiently specific performance obligations under AASB 15?

Given the uncertainties inherent in research, the findings from research typically cannot be known in advance and therefore a specific outcome cannot be promised at the outset of a research grant agreement. For this reason, the agreement—which includes the schedule that outlines the research activity—is instead specific in terms of the objectives of the research and how the research will be conducted (ie specificity about inputs and processes).

From a revenue recognition perspective, the focus is on whether:

- the research entity has promised to transfer goods or services (eg outputs from the research) to the donor or to other parties on behalf of the donor; and
- that promise is sufficiently specific such that it can be determined when the research entity has satisfied its obligation to transfer those goods or services.

Both factors must be present in order for the research entity to identify performance obligations in the agreement, which would mean that the agreement is within the scope of AASB 15 *Revenue from Contracts with Customers*. If one or both factors are not present, the agreement will instead be within the scope of AASB 1058 *Income of Not-for-Profit Entities*.

The following table illustrates how to think about the transfer of goods or services in relation to the possible outputs or other rights that a donor might be entitled to under a research grant agreement:

	Nature of output/right	Performance obligation?
1	Financial reports	No – the requirement to submit to the donor financial statements and acquittal statements are specific as to type (eg format and content) and frequency, but these statements do not represent a good or service that transfers to the donor. The benefit that the donor obtains from this reporting is related only to the research entity discharging its accountability for the grant funding received.
2	Progress reports	Typically no – the content of the report does not normally transfer a good or service to the donor because it does not communicate information about the findings or the research data from the research performed to date. The benefit that the donor obtains from this reporting is normally related only to the research entity discharging its accountability for the grant funding received.
3	Final report	Typically no – same as a progress report, unless the report provides research findings in some form.
4	Report on the research activity requested by the donor	Typically no – such reports do not normally provide research findings. Typically, the focus of such reporting is on discharging accountabilities rather than on communicating information on the research findings in





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Nature of output/right		Performance obligation?
		sufficient detail for the recipient to be able to obtain any substantive benefit from that information.
5	Access to personnel and premises	No – the purpose of this right is to manage risks associated with the research project rather than to provide access that would enable the donor to obtain a benefit from the research itself.
6	Access to information and “research material”	Typically no – where access to information and research material, which is defined as the project proposal and summary, progress reports and final reports, and the nature of the research materials (as defined by the agreement) does not include the underlying research data, findings or publications created from that data. The focus of the access is on discharging accountabilities rather than on transferring the goods/services such as research findings (including data). Yes – where the information and research material includes research data, findings or publications created from that data.
7	Licence to IP relating to “research material”	Typically no – where the licence is to research material, which is defined as the project proposal and summary, progress reports and final reports, and the nature of the research materials (as defined by the agreement) does not include the underlying research data, findings or publications created from that data. The focus of the licence is on discharging accountabilities rather than on transferring the goods/ services such as the research findings (including data). Yes – where the research material includes research data, findings or publications created from that data.
8	Intellectual property created from the research	Yes – see Chart 1 in research grant flowchart
9	Licence to the IP created from the research	Yes – see Chart 2 in research grant flowchart
10	Research findings (including publications)	Yes – see Chart 3 in research grant flowchart. Further analysed in the following Scenarios 1 and 2.

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### FAQ Scenario 1A – Enforceable agreement, performance obligation not sufficiently specific, no contract with a customer

University C receives a cash grant from a donor, XXX, of \$XXX million to undertake research that aims to XXX. University C receives the cash grant upon signing the contract.

The terms of the grant are:

- a period of three years;
- the return of funds that are either unspent or not spent in accordance with the agreement;
- the grant does not specify whether and when the researcher will publish any research findings;
- University C is able to utilise the findings from the research it performs for any other use of the university (eg able to use the research findings and data for teaching purposes)
- the “research material” is licensed permanently to the donor on a non-exclusive basis at the commencement of the agreement – the research material comprises the project proposal and summary, annual progress reports and a final report;
- the IP arising from the research is not transferred to the donor; and
- the university has an explicit right to payment for the research services completed to date if the agreement is terminated.

In addition, the university has the practice of publishing research findings (eg publishing research data and/or analysis).

University C notes that the arrangement is enforceable as the grant is refundable if the research is not undertaken. However, University C concludes its arrangement with the donor is not a contract with a customer as defined in AASB 15. This is on the basis that:

- the nature of “research material” (as defined in the agreement) does not include the underlying research data, findings or publications created from that data. The focus of the reports is on discharging accountabilities rather than on communicating information derived from the research. As a result, the licence of the research material is not considered to be substantive; and
- although the university has a practice of publishing research findings, there is no evidence that the donor and other parties are aware of the practice and there is a lack of specificity about when such research findings would be published. As a result, the implied promise to publish is not sufficiently specific because of the difficulty in determining whether there is an obligation that is enforceable as part of the contract and, if so, when the obligation would be satisfied.

Accordingly, the university concludes that the arrangement is not within the scope of AASB 15 and instead would be accounted for under AASB 1058 *Income of Not-for-Profit Entities*.

#### Accounting treatment

University C recognises a financial asset (cash) of \$XX million for the cash grant received and recognises any related amounts arising under other Australian Accounting Standards in accordance with AASB 1058. Any excess of the financial asset over the related amounts would be recognised as income.

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The fact that the university must return the funds that are either unspent or not spent in accordance with the agreement does not by itself give rise to a provision under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* because the entity can avoid a repayment by spending the money in accordance with the agreement. As a result, a provision cannot be recognised until such a breach has occurred or is expected, creating a present obligation at that point in time. A specified time period for the use of the grant is also not a basis for recognising an obligation. In addition, as the entity has the discretion whether to spend funds received in advance of the specified period, a refund liability is not recognised unless the entity breaches the condition or a breach is expected.<sup>1</sup> Consequently, University C recognises \$XX million as income in accordance with AASB 1058 upon recognition of the financial asset in accordance with AASB 9 *Financial Instruments*.

### **FAQ Scenario 1B – Enforceable agreement, performance obligation not sufficiently specific, no contract with a customer**

In this case, the facts of Scenario 1A apply, except that the grant is payable in accordance with a payment schedule that reflects agreed research milestones.

University C concludes that the arrangement is not a contract with a customer as defined in AASB 15 on the same basis as set out in Scenario 1A.

#### Accounting treatment

University C recognises a financial asset (receivable or cash) of \$XX million in accordance with AASB 9 when the university has an unconditional enforceable right to receive cash under the arrangement, which could be the case either upon signing the agreement or over time as the research is undertaken or as expenditures are incurred.

University C would have an unconditional enforceable right to receive cash upon signing the contract only when the following conditions are met:

- the contract cannot be terminated by the donor, with the exception of termination due to a breach by the university; and either
- all of the research milestones are within the control of the University; or
- there are no agreed milestones (ie no conditions outside the control of the university are required to be met to receive payments).

In such circumstances, University C recognises a financial asset at the present value of the receivable, and income, upon signing the contract as there is no sufficiently specific performance obligation to be delivered by the university.

If the arrangement includes conditions that are outside the control of University C, such as the donor having the ability to terminate the research depending on the results obtained, University C recognises a financial asset (eg cash or receivable) on the earlier of the receipt of grant payments from the donor or the incurrence of eligible research expenditure. The university also recognises

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<sup>1</sup> AASB 1058, paragraph B14



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any related amounts arising under other Australian Accounting Standards in accordance with AASB 1058. Any excess of the financial asset over the related amounts would be recognised as income.

### **FAQ Scenario 2A – Enforceable agreement, sufficiently specific performance obligation, research data and assessment only**

University C receives a cash grant from a donor, XXX, of \$XXX million to undertake research that aims to XXX.

The terms of the grant are:

- a period of three years;
- the return of funds that are either unspent or not spent in accordance with the agreement;
- the grant refers to the university's policy that requires the de-identified research findings (including data) being made available to the donor and authorised third parties periodically (eg at least annually at the end of each year);<sup>2</sup>
- University C is able to utilise the research it performs for any other use of the university (eg able to use the research findings and data for teaching purposes);
- the "research material" is licensed permanently to the donor on a non-exclusive basis at the commencement of the agreement – the research material comprises the project proposal and summary, annual progress reports and a final report;
- the IP arising from the research is not transferred to the donor; and
- the university has an explicit right to payment for the research services completed to date if the agreement is terminated.

University C concludes that the arrangement is a contract with a customer as defined in AASB 15 on the basis that:

- University C's promise of specified research (including making available the de-identified research findings) is enforceable as the grant is refundable if the research is not undertaken; and
- the university identifies its promises to make available de-identified research findings periodically as sufficiently specific promises as they are multiple (eg at least three) separate performance obligations each satisfied at a point in time, representing multiple discrete transfers of the research to the donor or third-party beneficiaries. The promises are sufficiently specific on the basis that the policies attached to the research grant specify the nature of the material (de-identified research findings (including data)) to be made available and a timeframe for that to occur (ie making the research findings available periodically, at least at the end of each of the three years). The terms of the grant require the university to make the research findings available to the donor and third parties as set out in its policy, whether or not the donor or third parties actually access the findings.

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2 Alternatively, where the grant agreement does not explicitly refer to the university's policy, provided the donors are aware of this policy, the university's past practice of making de-identified research findings available at least annually to donors and authorised third parties in accordance with its policy may create a valid expectation that the research findings will be made available. In this case, the implicit promises to make available de-identified research findings periodically would be treated as part of the grant terms.



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### Accounting treatment

In accordance with AASB 15, University C allocates the cash grant to its identified performance obligations and recognises the financial asset (cash) and a contract liability of \$XXX million on initial recognition.

University C concludes that for each of the performance obligations, the donor does not simultaneously receive and consume the benefits of the research services as they are performed. This is on the grounds that performance of the research activities results in the accumulation of knowledge, an asset (whether recognisable or unrecognisable) that is not immediately consumed. Therefore, paragraph 35(a) is not satisfied.

The donor does not obtain the IP under the agreement, nor does the donor control the knowledge accumulated as research activities are carried out. As a result, University C determines that its research does not create or enhance an asset that the donor controls as the asset is created or enhanced. Therefore, paragraph 35(b) is not satisfied.

Moreover, the university notes that it is able to utilise the research it performs for any other use it determines. This is on the grounds that the university has no contractual or practical limitation on its use of the research, including having the ability to sell the research to another party. Therefore, the university's performance does create an asset with an alternative use to the entity, and paragraph 35(c) is not satisfied.<sup>3</sup>

Accordingly, University C concludes that all the performance obligations are satisfied at a point in time (eg the end of each year, when the research findings to date are made available) and recognises the related revenue at the point in time (eg the end of each year).

### **FAQ Scenario 2B – Enforceable agreement, sufficiently specific performance obligation, research data and assessment only**

In this case, the facts of Scenario 2A apply, except that:

- the grant refers to the university's policy that requires the de-identified research findings (including data) being made available to the donor and authorised third parties periodically (eg at least annually at the end of each year), except when patents are being sought; and
- University C believes that the research may have commercial benefit and intends to only allow the access to research findings once patent applications are determined.

University C concludes that the arrangement is a contract with a customer as defined in AASB 15 on the basis that:

- University C's promise of specified research (including making the findings available) is enforceable as the grant is refundable if the research is not undertaken; and

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<sup>3</sup> In other circumstances, research may not have an alternative use.



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- the university identifies its promises to make available research findings (including research data) once patent applications are determined as a sufficiently specific promise that transfers the research to the donor or third-party beneficiaries. The promise is sufficiently specific on the basis that the policies attached to the research grant specify the nature of the material (research findings (including research data)) to be made available and a timeframe for this to occur (ie once patent applications are determined).

### Accounting treatment

In accordance with AASB 15, University C allocates the cash grant to its identified performance obligation and recognises the financial asset (cash) and a contract liability of \$XX million on initial recognition.

University C concludes that the donor does not simultaneously receive and consume the benefits of the research services as they are performed. This is on the grounds that performance of the research activities results in the accumulation of knowledge, an (unrecognisable) asset that is not immediately consumed. Therefore, paragraph 35(a) is not satisfied.

The donor does not obtain the IP under the agreement, nor does the donor control the knowledge accumulated as research activities are carried out. As a result, University C determines that its research does not create or enhance an asset that the donor controls as the asset is created or enhanced. Therefore, paragraph 35(b) is not satisfied.

Moreover, the university notes that it is able to utilise the research it performs for any other use it determines. This is on the grounds that the university has no contractual or practical limitation on its use of the research, including having the ability to sell the research to another party. Therefore, the university's performance does create an asset with an alternative use to the entity, and paragraph 35(c) is not satisfied.

Accordingly, University C concludes that the performance obligation is satisfied at a point in time (when the University makes the findings available) and recognises revenue when the research findings (including research data) are made available eg at the end of the research project when patent applications are determined.



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### Section 3: Identifying and Recognising Performance Obligations in NFP Schools

#### 7. 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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### **8. How does a 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>4</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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4 These types of examples are also very common in the for-profit sector. See, for example, illustrative example 53 of the IFRS 15 examples ([click here](#)), or the recent agenda decision of the IFRS Interpretations Committee addressing *Assessment of Promised Goods or Services* ([IFRIC Update January 2019](#)).