AASB Exposure Draft

ED 318
January 2022

Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases

Comments to the AASB by 11 March 2022

Australian Government

Australian Accounting Standards Board

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 11 March 2022.

Formal Submissions

Submissions should be lodged online via the "Current Projects – Open for Comment" page of the AASB website (www.aasb.gov.au/current-projects/open-for-comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aasb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards.

The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of Australian Accounting Standards.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Why we are making these proposals

Income of not-for-profit entities

The Board considered comments from stakeholders in the not-for-profit sector following the implementation of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*. Some stakeholders were concerned that the analysis and accounting treatment in the cash scholarship endowment example in Illustrative Example 3A accompanying AASB 1058 potentially was unclear. These stakeholders suggested that the example may lead to diversity in recognising a financial liability as it does not explain sufficiently whether recognition of a financial liability is required for any funding received by an entity that is subsequently directed to other recipients and income recognised for the portion retained.

Stakeholders also noted concerns about the diversity of practice in accounting for upfront fees received by not-for-profit entities. Where the not-for-profit entity recognises revenue within the scope of AASB 15 and a non-refundable upfront payment is charged to the customer, AASB 15 paragraphs 22–30, B48–B51 and F20–F27 require an entity to assess whether the upfront fees relate to the transfer of a promised good or service. If the upfront fees do relate to a transfer of goods or services, revenue is recognised over the time the service or goods are provided, rather than on receipt of the funds.

Stakeholders raised this issue from the perspective of diversity in practice, where:

- some entities are deferring revenue (and recognising a contract liability in accordance with AASB 15); and
- other entities are continuing to recognise revenue on receipt of fees which, prima facie, look very similar.

Stakeholders also indicated that the principle of deferral is confusing to boards, management committees, members and other users as the amounts received are not refundable. Stakeholders requested further guidance to clarify the principle and why a contract liability is recognised when the funds will never be repaid.

The Board considered the stakeholder comments and assessed the feedback with reference to the *AASB Not-for-Profit Entity Standard-Setting Framework*. Whilst the original conclusions in the Illustrative Example 3A in AASB 1058 are appropriate, the Board decided to propose amending the example to clarify the conclusion further and adding an additional example to illustrate a contrasting scenario. The Board also decided to propose adding an additional illustrative example to AASB 15 to address the issues that stakeholders raised regarding upfront fees received that are in the scope of AASB 15. The Board decided not to propose amendments to AASB 15 and AASB 1058 in regard to other comments received from stakeholders and will consider the feedback in the forthcoming post-implementation review of AASB 1058 and guidance for not-for-profit entities in AASB 15. The AASB also intends to provide further educational material to assist with the application of these Standards.

Concessionary leases

AASB 1058 amended AASB 16 *Leases* to require right-of-use assets arising under leases that have significantly below-market terms and conditions principally to enable the not-for-profit entity to further its objectives (abbreviated here as "concessionary leases") to be initially measured at fair value. The difference between the initial fair value measurement of such a right-of-use asset over any related amounts recognised under other Accounting Standards is immediately recognised as income.

Subsequently, the AASB issued AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* to provide an optional exemption from the initial fair value measurement requirement and allow not-for-profit entities to elect to measure right-of-use assets arising under concessionary leases at cost. At that time the Board indicated that the accounting policy choice to measure such right-of-use assets at cost is only a temporary exemption from the initial fair value requirement. The Board noted that it would reassess the initial measurement requirement for right-of-use assets under concessionary leases in the future (see paragraph BC10 to AASB 2018-8, which accompanies versions of AASB 16 that incorporate those amendments).

At its November 2021 meeting, the Board considered feedback from not-for-profit private sector stakeholders that uncertainty exists whether fair value information needs to be obtained for concessionary leases. This uncertainty exists because it is unclear whether the Board would be likely to require retrospective application of the initial fair value requirement if it decides in the future to remove the accounting policy choice.

The Board considered stakeholders' comments and decided to propose to retain the accounting policy choice to initially measure right-of-use assets arising under concessionary leases at cost on an ongoing basis, to provide certainty to not-for-profit private sector lessees.

Regarding not-for-profit public sector lessees, the Board considered that a decision about the initial measurement of right-of-use assets arising under concessionary leases be deferred until additional guidance on how to measure the fair value of such right-of-use assets is discussed. The Board decided to consider outcomes of the concessionary leases part of the IPSASB's current Leases project, and the AASB's forthcoming Exposure Draft proposing modifications to AASB 13 for not-for-profit public sector entities, before reconsidering the application of fair value for concessionary leases in the not-for-profit public sector. The Board noted concerns raised by public sector stakeholders regarding the difficulty of measuring the fair value of historical concessionary leases. However, the Board decided not to propose grandfathering concessionary leases currently in place from a possible future fair value requirement unless it decides to remove the accounting policy choice to initially measure right-of-use assets arising under concessionary leases at cost.

What we are proposing

This Exposure Draft proposes amendments to:

(a) AASB 15 *Revenue from Contracts with Customers* – to add Illustrative Example 7A to clarify accounting for upfront fees; and

(b) AASB 1058 *Income of Not-for-Profit Entities* – to amend Illustrative Example 3 to clarify the analysis regarding the recognition of a financial liability.

The Basis for Conclusions for this Exposure Draft also documents the AASB's proposed intention to retain the accounting policy choice in AASB 16 *Leases* paragraphs Aus25.1–Aus25.2 on an ongoing basis (i.e. with no plan to reconsider the accounting policy choice) for not-for-profit private sector lessees to elect to initially measure a class of concessionary right-of-use assets at cost or fair value.

Application date

It is proposed that the amendments would apply to annual periods beginning on or after 1 July 2022, with earlier application permitted.

We need your feedback

Comments are invited on any of the proposals in this Exposure Draft by 11 March 2022. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Specific matters for comment

The AASB would particularly value comments on the following:

Proposed amendments to AASB 15 and AASB 1058 (all not-for-profit entities)

1 Do you agree that the proposed amendments to the AASB 15 and AASB 1058 illustrative examples provide appropriate illustration of the application of the recognition and measurement requirements of the Standards? If not, please explain why.

Concessionary leases (not-for-profit private sector lessees)

2 In respect of not-for-profit private sector lessees, do you agree with the proposal that the current accounting policy choice in AASB 16 paragraphs Aus25.1–Aus25.2 (for not-for-profit entities to elect to initially measure a class of concessionary right-of-use assets at cost or fair value) should be retained on an ongoing basis (i.e. with no plan to reconsider the accounting policy choice)? If not, please provide your reasons.

3 Do you agree that the disclosures required by AASB 16 (including the requirements in AASB 16 paragraphs Aus59.1–Aus59.2) provide sufficient information to users of financial statements in the absence of fair value information? Are there any other disclosures regarding concessionary leases that would be useful to users of financial statements without incurring undue cost or effort for preparers? Please provide reasons to support your answer.

4 If in response to Question 2 you consider that not-for-profit private sector lessees should be required to initially measure right-of-use assets arising under concessionary leases at fair value, do you consider that the initial fair value measurement requirement should be applied:

(a) prospectively, to concessionary leases entered into after the date of application of the removal of the accounting policy choice to measure such right-of-use assets at cost; or

(b) retrospectively (i.e. requiring existing right-of-use assets arising under concessionary leases to be adjusted to reflect the effect of the initial fair value requirement)?

Please provide reasons to support your view.

Concessionary leases (not-for-profit public sector lessees)

5 In respect of not-for-profit public sector lessees, do you agree that, in the absence of fair value information about concessionary leases, the disclosures required by AASB 16 (including the requirements in AASB 16 paragraphs Aus59.1–Aus59.2) provide sufficient information to users of public sector entities' financial statements? Are there any other disclosures regarding concessionary leases that would be useful to users of public sector entities' financial statements without incurring undue cost or effort for preparers? Please provide your reasons to support your answer.

General matters for comment

The AASB would also particularly value comments on the following general matters:

6 Whether the *AASB Not-for-Profit Entity Standard-Setting Framework* has been applied appropriately in developing the proposals in this Exposure Draft?

7 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?

8 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

9 Whether, overall, the proposals would result in financial statements that would be useful to users?

10 Whether the proposals are in the best interests of the Australian economy?

11 Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

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[DRAFT] BASIS FOR CONCLUSIONS

[Draft] Australian Accounting Standard AASB 2022-X *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15 and AASB 1058* is set out in paragraphs 1 – 7. All the paragraphs have equal authority.

Preface

Standards amended by 2022-X

This [draft] Standard makes amendments to the *Australian Illustrative Examples for Not-for-Profit Entities* accompanying AASB 15 *Revenue from Contracts with Customers* (December 2014) and *Illustrative Examples* accompanying AASB 1058 *Income of Not-for-Profit Entities* (December 2016).

Main features of this Standard

Main requirements

This [draft] Standard makes amendments to:

(a) AASB 15 *Revenue from Contracts with Customers*, to add Illustrative Example 7A to clarify accounting for upfront fees; and

(b) Illustrative Example 3 accompanying AASB 1058 *Income of Not-for-Profit Entities* to clarify the analysis regarding the recognition of a financial liability.

The amendments do not change the requirements of AASB 15 or AASB 1058. The amendments are relevant only to not-for-profit entities.

Application date

This [draft] Standard applies to annual periods beginning on or after … [1 July 2022], with earlier application permitted.

[Draft] Accounting Standard AASB 2022-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2022-X *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15 and AASB 1058* under section 334 of the *Corporations Act 2001*.

Dated … [date]

Keith Kendall
Chair – AASB

[Draft] Accounting Standard AASB 2022-X
Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15 and AASB 1058

Objective

1 This Standard amends:

(a) Australian Illustrative Examples for Not-for-Profit Entities accompanying AASB 15 *Revenue from Contracts with Customers* (December 2014) to illustrate how AASB 15 applies to recognition and measurement of upfront fees; and

(b) Illustrative Example 3 accompanying AASB 1058 *Income of Not-for-Profit Entities* (December 2016) to clarify the analysis regarding the recognition of a financial liability.

The amendments do not change the requirements of AASB 15 or AASB 1058.

Application

2 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of the other Standards set out in AASB 1057 *Application of Australian Accounting Standards*.

3 This Standard applies to annual periods beginning on or after … [1 July 2022]. Earlier application of this Standard is permitted.

4 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (…) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Amendments to Australian illustrative examples for not-for-profit entities accompanying AASB 15 *Revenue from Contracts with Customers*

5 Paragraph IE4A and Example 7A are added to the Australian illustrative examples for not-for-profit entities accompanying AASB 15 as follows:

…

Accounting for upfront fees (paragraphs F5–F27)

IE4A Example 7A illustrates application of the requirements of AASB 15 to transactions where a not-for-profit entity charges upfront fees to customers or members as part of the goods and services offered. The following are examples of upfront fees:

(a) joining fees at clubs and membership bodies;

(b) enrolment fees at schools; and

(c) other establishment or set-up fees where the fee is paid at or near contract inception and the customer can renew the contract each year without paying an additional fee.

Where the goods or services to which the upfront fee relates are in the scope of AASB 15, the recognition of the upfront fee as revenue depends on whether the payment of the fee relates to a transfer of distinct goods or services to the customer that meets the definition of a performance obligation. In many cases, even though a non-refundable upfront fee relates to the activity that an entity is required to undertake to fulfil the contract, that activity may be an administrative task that does not necessarily result in the transfer of a promised good or service to the customer.

Example 7A—Upfront fee charged by an organisation

An organisation offers enrolment to prospective clients for the services it provides. Upon accepting an offer of enrolment, the prospective client 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 service is guaranteed for the client to commence in the agreed-upon year and for the period of the contract, being 2 years;
- the fee is non-refundable and non-transferable; and
- the fee is not offset against any future fees that are charged on an ongoing basis for continued access to the services.

The analysis below sets out the process followed by not-for-profit entities in determining the accounting treatment for upfront fees charged. The process does not specifically discuss any particular fee and is applied in the context of the relevant facts and circumstances of an entity's upfront fees. Note: the term customer is used in the analysis to cover all counterparties to an agreement, for example members or students.

<u>Analysis</u>

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

The entity first considers whether the agreement with the customer 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:

- Is there a customer who has promised consideration in exchange for goods or services from the entity and is the promise to transfer goods or services sufficiently specific? (AASB 15, paragraphs 9, Aus9.1 and F5–F7)
- Is there a written, oral or implied agreement, such as an application form or other document? (AASB 15, paragraphs 10 and F8–F9)
- Does the agreement create enforceable rights and obligations for the parties? For example, could the customer either enforce the agreement or obtain other remedy under Australian law if the promised service was not delivered? (AASB 15, paragraphs 10 and F10–F18).

In many cases where there will be an ongoing relationship with the customer following payment of the upfront fee, such as annual fees to access a service, revenue would be recognised in accordance with AASB 15. If multiple agreements are in place, for example an agreement for a joining fee and a separate agreement for the annual membership fee, then the guidance in paragraph 17 of AASB 15 should be considered in relation to combining the agreements for accounting purposes.

What are the performance obligations in the contract, and are the activities associated with the non-refundable upfront fee one of these performance obligations?

The entity considers the guidance on:

- accounting for non-refundable fees in AASB 15, paragraphs B48–B51; and
- identifying performance obligations in AASB 15, paragraphs 22–30 and F20–F27;

to determine whether the upfront fee relates to the transfer of a good or service separate to the provision of services in the future.

In performing this analysis, the entity notes that performance obligations do not include activities that an entity must undertake to fulfil a contract (e.g. setting up a customer on the system, printing membership cards and similar) unless those activities transfer a good or service to the customer (AASB 15, paragraph 25). The non-refundable fee might cover internal administrative activities that enable the entity to provide future services to the customer. However, these activities do not transfer a promised good or service to the customer separate from the provision of future services and are therefore not a separate performance obligation (AASB 15, paragraph B49). If this is the case, the entity concludes that the non-refundable upfront fee – to the extent it relates to the internal administrative services – does not represent a payment for a separate performance obligation but is in substance an advance payment for future services.

In other circumstances, some or all of the upfront fee may relate to a separate performance obligation or obligations, whether satisfied at or near contract inception or otherwise.

How is the revenue for the upfront fee recognised?

Where the activity does not result in a transfer of a good or service to the customer that satisfies a separate performance obligation and the upfront fee is an advance payment for performance obligations to be satisfied in the future, the upfront fee is recognised as revenue as these future services are provided, that is, over the period in which the performance obligation is satisfied. If the entity has charged the non-refundable fee in part as compensation for costs incurred in setting up a contract (or other administrative tasks) and those setup activities are not a separate performance obligation, they should be disregarded when measuring progress towards completion of the services (AASB 15, paragraph B51). The revenue recognition period will extend beyond the initial contractual period if the entity grants the customer the option to renew the contract and that option provides the customer with a material right (e.g. no requirement to pay a further joining fee on renewal) (AASB 15, paragraphs B40 and B49). Annual fees charged to access the services will be recognised as revenue over the period that the services are provided.

In the circumstances where some or all of the upfront fee relates to a separate performance obligation or obligations, the relevant portion of the upfront fee is recognised as revenue when the separate performance obligations are satisfied.

Accounting treatment

The organisation 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 client – who has promised consideration in exchange for future services (an ordinary activity of the organisation) to be provided to a specified recipient (see paragraphs 6 and F6–F7); and
- a contract exists, as there is a written agreement (see paragraphs 10 and F8–F9) that creates enforceable rights and obligations for the client to receive services in the agreed-upon years. Despite the fee being non-refundable, the client would either enforce the agreement or obtain remedy under Australian law if the organisation did not provide services in the agreed-upon years (see paragraphs 10 and F10–F18).

The organisation 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 services in the future.

The organisation concludes that the non-refundable upfront fee does not relate to an activity that represents a separate performance obligation (see paragraph 25), but is instead an advance payment for future services. Therefore, the upfront fee is recognised as revenue as the future services are provided over the two-year contract period (see paragraphs 30 and B49).

Amendments to Illustrative examples accompanying AASB 1058 *Income of Not-for-Profit Entities*

6 Illustrative Example 3 in paragraph IE3 in the Illustrative examples accompanying AASB 1058 is amended as follows:

…

Example 3—Endowment made to a university

An alumnus transferred $2 million cash to University A as an endowment. Under the terms of the endowment:

- the $2 million cash can be invested at the university's discretion;
- ~~subject to preserving the real value of the principal, all income generated from investing~~ the principal is required to be applied towards cash scholarships ~~of $20,000 per student~~ by the end of the next 10 years as directed and approved by the alumnus (including the number of the scholarships awarded in any given year) for the student to use at their discretion; ~~and~~
- all income generated from investing the principal can be used by the university to further its objectives at the university's discretion;
- if the university breaches the terms of the endowment, the university is required to return the ~~real value~~ remaining amount of the principal to the alumnus; and
- any remaining amount of the principal at the end of the 10-year period will be returned to the alumnus.

Scope and asset recognition

University A determines:

- it has an enforceable agreement with the alumnus, as the university can be required to return the endowment in the event it breaches the terms under which it was given;
- the $2 million endowment is an asset that the university acquired for no consideration to further the objectives of the university. Accordingly, the endowment is within the scope of AASB 1058; and
- it controls a financial asset ($2 million) within the scope of AASB 9 and it recognises the financial asset for the endowment received in accordance with the requirements of paragraph 3.1.1 of AASB 9.

Example 3A.1 – Financial instrument (cash scholarships, not goods or services, financial liability under AASB 9)

Based on the facts and circumstances outlined above, as ~~the income generated from~~ the principal amount ~~(excluding the income required to preserve the real value of the principal)~~ must be applied towards funding cash scholarships at the direction of the alumnus over the next 10 years ~~at some time in the future (at its discretion)~~, the university considers whether it ~~has incurred~~ should recognise a financial instrument (i.e. a financial liability) under AASB 9 as a related amount. The university also considers whether derecognition of the financial asset is appropriate under Chapter 3 ‘Recognition and derecognition’ of AASB 9, instead of the recognition of a financial liability.

As the university agreed to apply the endowment towards cash scholarships at the direction of the alumnus, the university considers whether it has transferred the financial asset to scholarship recipients.

The university notes that because it did not assume an obligation to pay cashflows from the asset that meets the conditions in AASB 9 paragraph 3.2.5 (i.e. it did not enter a ‘pass-through arrangement’) and it has retained substantially all the risks and rewards of the asset as it may invest the funds as it considers appropriate, the university continues to recognise the financial asset in accordance with AASB 9 paragraphs 3.2.1–3.2.9.

The university also determines that the endowment gives rise to a financial instrument and, specifically, a financial liability because:

- the endowment constitutes a contractual obligation to deliver cash or another financial asset to another entity, being the obligation to apply the principal to cash scholarships for eligible students under the direction of the alumnus (AASB 132, paragraph 11); and
- the university does not have an unconditional right to avoid delivering cash to settle this contractual obligation (AASB 132, paragraph 19).

Accordingly, the university continues to recognise the endowment funds as a financial asset and recognises the endowment principal as a financial liability as required by paragraph 3.2.15 of AASB 9.

In this example, no transfer of specific goods or services is required under the terms of the endowment. The scholarship is paid in cash rather than through the provision of goods or services. Accordingly, the university determines that it does not have a contract with a customer (the alumnus) that would be accounted for in accordance with AASB ~~1058~~ 15.

Similarly, the endowment does not give rise to the following types of related amounts:

- a contribution by owners, as the alumnus does not control or have an ownership interest in the university;
- a lease liability as defined in AASB 16, as the endowment does not provide a right to use a specified asset; and
- a provision within the scope of AASB 137, as the agreement provides legal obligations and there are no other constructive obligations that are sufficiently specific to consider.

Accounting treatment

~~In accordance with paragraph 9, University A accounts for the endowment under AASB 9.~~ In accordance with paragraph B13, any difference between the fair value of the asset recognised and the consideration paid for the asset after deducting any other related amounts (being the difference between the $2 million financial asset recognised and a related financial liability recognised) would be accounted ~~for under AASB 9~~ as income in accordance with paragraph 10, unless another Standard addresses the accounting for the difference, such as the “day one gain/loss” requirements in AASB 9. ~~Paragraph 10 of AASB 1058 does not apply in this case.~~

In accordance with paragraph 9, University A accounts for the endowment under AASB 9 and recognises the $2 million endowment as a financial asset and an equal amount as a financial liability, to be applied to cash scholarships at the direction of the alumnus. The income generated by the principal is recognised in accordance with AASB 9.

Example 3A.2 – Income (not goods or services, income under AASB 1058)

In this example, the facts of Example 3 apply, except that:

- under the terms of the endowment, the university is required to invest the endowment and reinvest the income generated by the endowment to support the university in furthering its objectives (i.e. there is no requirement to apply the principal towards cash scholarships at the direction of the alumnus).

Based on these facts and circumstances, on gaining control of the endowment of $2 million University A determines that there are no related amounts for the $2 million. This is because, in addition to the analysis applied in Example 3A.1, there is no financial liability within the scope of AASB 9: there is no obligation to provide cash or another financial asset to other parties.

Accounting treatment

In accordance with paragraph 10, the endowment of $2 million is accounted for by University A as income immediately in profit or loss on recognition of the financial asset in accordance with AASB 9.

The journal entry on initial recognition is:

	Debit	**Credit**
Cash	2,000,000	
Income		2,000,000

…

Commencement of the legislative instrument

7 For legal purposes, this legislative instrument commences on … date.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2022-X Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15 and AASB 1058.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in this Exposure Draft. It sets out the reasons why the Board developed the Exposure Draft, the approach taken to developing the Exposure Draft and the bases for the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Reasons for proposing these amendments

Income of not-for-profit entities

BC2 The Board considered comments from stakeholders in the not-for-profit sector following the implementation of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*. Some stakeholders were concerned that the analysis and accounting treatment set out in the cash scholarship endowment example in Illustrative Example 3A accompanying AASB 1058 potentially was unclear. These stakeholders suggested that the example may lead to diversity in recognising a financial liability as it does not explain sufficiently whether recognition of a financial liability is required for any funding received by an entity that is subsequently directed to other recipients and income recognised for the portion retained.

BC3 Stakeholders also noted concerns about the diversity of practice in accounting for upfront fees received by not-for-profit entities. Where the not-for-profit entity recognised revenue within the scope of AASB 15 and a non-refundable upfront payment is charged to the customer, AASB 15 paragraphs 22–30, B48–B51 and F20–F27 require an entity to assess whether the upfront fees relate to the transfer of a promised good or service. If the upfront fees do relate to a transfer of goods or services, revenue is recognised over the time the service or goods are provided rather than on receipt of the funds.

BC4 Stakeholders raised this issue from the perspective of diversity in practice, where some entities are deferring revenue (and recognising a contract liability in accordance with AASB 15) and other entities are continuing to recognise revenue on receipt of fees which, prima facie, look very similar. Stakeholders also indicated that the principle of deferral is confusing to boards, management committees, members and other users as the amounts received are not refundable. Stakeholders requested further guidance to clarify the principle and why a contract liability is recognised when the funds will never be repaid.

BC5 The Board considered the stakeholder comments and assessed the feedback with reference to the *AASB Not-for-Profit Entity Standard-Setting Framework*. Whilst the original conclusions in the Illustrative Example 3A in AASB 1058 are appropriate, the Board decided to propose amending the example to clarify the conclusion further and adding an additional example to illustrate a contrasting scenario. The Board also decided to propose adding an additional illustrative example to AASB 15 (Example 7A) to address the issues that stakeholders raised regarding upfront fees received that are in the scope of AASB 15. The Board decided not to propose amendments to AASB 15 and AASB 1058 in regard to other comments received from stakeholders and will consider the feedback in the forthcoming post-implementation review of AASB 1058 and guidance for not-for-profit entities in AASB 15. The AASB also intends to provide further educational material to assist with the application of these Standards.

Initial measurement of right-of-use assets arising under concessionary leases

BC6 When the Board issued AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*, it intended to reassess the accounting policy choice in AASB 16 *Leases* paragraphs Aus25.1–Aus25.2 for the initial measurement of right-of-use assets arising under concessionary leases at cost or fair value when it had finalised two other projects (as noted in paragraph BC10 to AASB 2018-8, which accompanies versions of AASB 16 that incorporate those amendments). The two projects were the Not-for-Profit Private Sector Financial Reporting Framework project and the project to provide further guidance to assist not-for-profit entities in measuring the fair value of right-of-use assets.

BC7 For ease of reference in this Basis for Conclusions, 'concessionary leases' refers to leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives.

Not-for-profit private sector lessees

BC8 The Board noted feedback from not-for-profit private sector stakeholders that, despite having the accounting policy choice to initially measure right-of-use assets arising under concessionary leases at cost, uncertainty exists whether fair value information needs to be obtained for such right-of-use assets. This uncertainty exists because it is unclear whether the Board would be likely to require retrospective application of the initial fair value requirement if it decides in the future to remove the accounting policy choice to initially measure such right-of-use assets at cost. Stakeholders commented that if retrospective application was required, the collection of fair value information for historical concessionary leases, particularly those leases that have been in place for a significant period, would be costly and time consuming. At its November 2021 meeting, the Board discussed the initial measurement requirements for concessionary right-of-use assets with a view to providing certainty to not-for-profit private sector lessees.

BC9 The Board acknowledged that, conceptually, requiring right-of use assets arising under concessionary leases to be initially measured at fair value is consistent with the accounting treatment applied to other assets acquired on below-market terms and conditions and better reflects the value of the right-of-use asset obtained by the lessee in its financial position and financial performance. However, the Board considered that the costs required to obtain the fair value of such right-of-use assets would outweigh the benefits for not-for-profit private sector entities. This is because:

(a) many not-for-profit private sector entities may not have the knowledge and experience in applying the principles of AASB 13 *Fair Value Measurement* because they generally do not measure non-financial assets at fair value. The cost and effort required to understand and apply AASB 13 requirements for the one-off purpose of initially recognising a right-of-use asset under a concessionary lease might be considered unjustified;

(b) some stakeholders have commented that the disclosures required by AASB 16, including the requirements in AASB 16 paragraphs Aus59.1─Aus59.2, appear to provide sufficient information to users of financial statements about concessionary leases for them to understand the effects of the leases on the financial position, financial performance and cash flows of the entity, in the absence of fair value information; and

(c) some stakeholders have commented that recognising income resulting from initially measuring such right-of-use assets at fair value, and the subsequent amortisation of the right-of-use assets, might not meet the information needs of users of financial statements. This might particularly be the case when a user is more interested in the entity's expenses that need to be funded rather than the value of an asset consumed during the financial period that would not need to be funded.

BC10 Therefore, having regard to the *AASB Not-for-Profit Entity Standard-Setting Framework*, the Board decided to retain the accounting policy choice in AASB 16 paragraphs Aus25.1–Aus25.2 on an ongoing basis (i.e. with no plan to reconsider the accounting policy choice) for not-for-profit private sector lessees to elect to initially measure a class of concessionary right-of-use assets at cost or fair value.

Not-for-profit public sector lessees

BC11 Regarding not-for-profit public sector lessees, the Board considered that a decision about the initial measurement of right-of-use assets arising under concessionary leases be deferred until additional guidance on how to measure the fair value of such right-of-use assets is discussed.

BC12 The Board decided to consider outcomes of the concessionary leases part of the IPSASB's current Leases project and the Board's forthcoming Exposure Draft proposing modifications to AASB 13 for not-for-profit public sector entities before reconsidering the application of fair value for concessionary leases in the not-for-profit public sector.

BC13 The Board noted concerns raised by public sector stakeholders regarding the difficulty of measuring the fair value of historical concessionary leases. However, the Board decided not to propose grandfathering concessionary leases currently in place from a possible future fair value requirement unless it decides to remove the accounting policy choice to initially measure right-of-use assets arising under concessionary leases at cost.