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Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities
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For comment to the AASB by 21 October 2016.

Australian Government

Australian Accounting Standards Board

DRAFT FOR FATAL-FLAW REVIEW
COMMENTS DUE 21 OCTOBER 2016

AASB Standard

AASB 10XX
[Month] 2016

Income of Not-for-Profit Entities

Australian Government

Australian Accounting Standards Board

Obtaining a copy of this Accounting Standard

This Standard is available on the AASB website: www.aasb.gov.au.

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Contents

Australian Accounting Standard AASB 10XX *Income of Not-for-Profit Entities* is set out in paragraphs 1 – 42 and Appendices A – D. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. AASB 10XX is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations, and AASB 1057 *Application of Australian Accounting Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

Preface

Introduction

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards, including Interpretations. The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*.

AASB 1057 *Application of Australian Accounting Standards* identifies the application of Standards to entities and financial statements. AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements.

What this Standard requires

This Standard clarifies and simplifies the income recognition requirements that apply to not-for-profit (NFP) entities. This Standard replaces all the income recognition requirements relating to private sector NFP entities, and the majority of income recognition requirements relating to public sector NFP entities, previously in AASB 1004 *Contributions.* The requirements of this Standard more closely reflect the economic reality of NFP entity transactions. The timing of income recognition depends on whether a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service) related to an asset (such as cash or another asset) received by an entity.

This is achieved through a combination of the requirements of this Standard, application guidance added to AASB 15 *Revenue from Contracts with Customers* and additional guidance for NFP entities applying other Australian Accounting Standards (eg AASB 116 *Property, Plant and Equipment*).

This Standard applies to transactions where a NFP entity receives volunteer services or enters into other transactions where the consideration to acquire an asset is significantly less than the fair value of the asset principally to enable the entity to further its objectives.

When an entity acquires an asset for consideration that is significantly less than the fair value of the asset, and the reduction in the consideration is principally to enable the entity to further its objectives, the entity recognises and measures the asset at fair value in accordance with another Australian Accounting Standard (eg AASB 116).

Upon initial recognition of the asset, this Standard requires the entity to consider whether any other financial statement elements should be recognised ('related amounts'), for example:

(a) contributions by owners;

(b) revenue, or a contract liability arising from a contract with a customer;

(c) a lease liability;

(d) a financial instrument; or

(e) a provision.

These related amounts are accounted for in accordance with the applicable Australian Accounting Standard.

If the transaction includes a transfer to enable an entity to acquire or construct a non-financial asset for its own use, the entity recognises a liability for the excess of the fair value of the transfer over any related amounts recognised. The entity recognises income as it satisfies its obligations under the transfer. Otherwise, the entity recognises the excess as income.

When an entity receives volunteer services and can reliably measure the fair value of those services, the entity may elect to recognise them as an asset (provided the relevant asset recognition criteria are met) or an expense. Local governments, government departments, general government sectors (GGSs) and whole of governments are required to recognise volunteer services if they would have been purchased if not received voluntarily and the fair value of those services can be measured reliably.

Application date

This Standard applies to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, provided entities also apply AASB 15 *Revenue from Contracts with Customers* to the same period.

DRAFT FOR FATAL-FLAW REVIEW
COMMENTS DUE 21 OCTOBER 2016

Accounting Standard AASB 10XX

The Australian Accounting Standards Board makes Accounting Standard AASB 10XX *Income of Not-for-Profit Entities* under section 334 of the *Corporations Act 2001*.

Kris Peach
Dated … [date] Chair – AASB

Accounting Standard AASB 10XX
Income of Not-for-Profit Entities

Objective

1 **This Standard establishes principles for not-for-profit entities that apply to:**

(a) transactions where the consideration to acquire an asset is significantly less than fair value principally to enable a not-for-profit entity to further its objectives; and

(b) the receipt of volunteer services.

2 If the consideration provided to obtain an asset, including cash, is significantly less than the fair value of that asset, or if no consideration was provided, and the difference is principally to enable the entity to further its objectives, such a transaction is in scope of this Standard. For example, an entity that receives a cash grant to be used to further its objectives has provided no consideration in exchange for that cash. Accordingly, that transaction is accounted for in accordance with this Standard.

Meeting the objective

3 To meet the objective in paragraph 1(a), an entity shall initially recognise:

(a) an asset in accordance with the applicable Australian Accounting Standard;

(b) any related *contributions by owners*, contract liabilities, financial liabilities, lease liabilities and other liabilities and revenue, measured in accordance with the applicable Australian Accounting Standard;

(c) any liabilities for obligations arising from transfers made to enable an entity to acquire or construct a non-financial asset for its own use; and

(d) related income representing the residual amount of resources received.

4 To meet the objective in paragraph 1(b), certain types of public sector entities shall recognise assets or expenses for volunteer services received if the fair value of those services can be measured reliably and the entity would have purchased those services if they had not been donated. Any not-for-profit entity may elect to recognise volunteer services received if their fair value can be measured reliably irrespective of whether that entity would have purchased those services if not donated.

5 AASB 15 *Revenue from Contracts with Customers* defines income as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions by equity participants (that is, owners). This Standard addresses income arising from the acquisition of assets for consideration that is significantly less than the fair value of the asset when that difference is principally for enabling the not-for-profit entity to further its objectives. This Standard applies to those differences that result in increases in equity, other than those relating to contributions by owners or those accounted for under another Standard (eg AASB 15). Other Australian Accounting Standards (eg AASB 1004 *Contributions*) address income arising from decreases of liabilities and the accounting for contributions by owners.

6 An entity shall apply the requirements of this Standard to each transaction based on the substance of the transaction, rather than its legal form or the description given to it (eg grants or donations), so as to provide a faithful representation of the economic phenomena.

Scope (paragraphs B2–B10)

7 An entity shall apply this Standard to transactions where the consideration for the acquired asset is significantly less than fair value principally to enable the entity to further its objectives, and the receipt of volunteer services, except for:

(a) business combinations within the scope of AASB 3 *Business Combinations*;

(b) insurance contracts within the scope of AASB 4 *Insurance Contracts*;

(c) licences outside the scope of AASB 15;

(d) income taxes within the scope of AASB 112 *Income Taxes*; and

(e) restructures of administrative arrangements within the scope of AASB 1004.

Recognition and measurement

Recognition and measurement of an asset

8 Except as set out in paragraphs 18–22, an entity shall apply the requirements of other Australian Accounting Standards (as relevant) to an asset arising from a transaction within the scope of this Standard. Examples include:

(a) AASB 16 *Leases*;

(b) AASB 116 *Property, Plant and Equipment*; and

(c) AASB 138 *Intangible Assets*.

Recognition and measurement of income and related amounts (paragraphs B11–B29)

9 Except as set out in paragraphs 15–17, an entity shall recognise income immediately in profit or loss for the excess of the initial carrying amount of an asset over the related amounts recognised in accordance with paragraph 10.

10 On initial recognition of an asset, an entity shall recognise any related contributions by owners, increases in liabilities, decreases in assets, and revenue (‘related amounts’) in accordance with other Australian Accounting Standards. For example, related amounts may take the form of:

(a) *contributions by owners*, in accordance with AASB 1004;

(b) revenue or a contract liability arising from a contract with a customer, in accordance with AASB 15;

(c) a lease liability in accordance with AASB 16;

(d) a financial instrument, in accordance with AASB 9 *Financial Instruments*; or

(e) a provision, in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

11 Appendix F *Australian Implementation Guidance for Not-for-Profit Entities* of AASB 15 provides guidance on the identification of a contract with a customer in a not-for-profit entity context. The Appendix also clarifies the measurement of revenue and contract liabilities where the transaction price includes an amount that would otherwise be separately recognised and accounted for as income immediately in accordance with this Standard.

12 For the purposes of this Standard, income is determined as the difference between the consideration for an asset and the asset’s fair value after recognising any related amounts. An entity applies judgement in determining the extent to which the acquisition of an asset gives rise to income as specified by this Standard or to revenue, a liability or a contribution by owners recognised in accordance with another Australian Accounting Standard.

13 In some instances, an entity may acquire an asset and also recognise related amounts that in total exceed the initial measurement of the asset. In such instances, the entity shall reassess whether it has appropriately identified and measured all the related amounts. If an excess remains after restating any related amounts, the entity shall recognise an expense for the excess of the related amounts over the carrying amount of the asset acquired. An entity does not adjust the excess against the recognised related amounts.

14 An entity shall subsequently apply the requirements of other Australian Accounting Standards applicable to the related amounts referred to in paragraph 10.

Transfers made to enable an entity to acquire or construct a non-financial asset for its own use

15 A transfer made to enable an entity to acquire or construct a non-financial asset for its own use is one that:

(a) requires the entity to use that financial asset to acquire or construct a non-financial asset to identified specifications;

(b) does not require the entity to transfer a financial asset, good or service to the transferor; and

(c) obliges the entity to refund amounts received to the transferor if the financial asset is not applied in accordance with the terms of the transfer.

16 An entity shall recognise a liability for the excess of the initial carrying amount of a financial asset received in a transfer made to enable an entity to acquire or construct a non-financial asset for its own use over any related amounts recognised in accordance with paragraph 10. The entity shall recognise income in profit or loss when (or as) the entity satisfies its obligations under the transfer.

17 In such circumstances, the transferor has in substance transferred a non-financial asset to the entity. The entity recognises the financial asset received in accordance with AASB 9 and the non-financial asset in accordance with the applicable Australian Accounting Standard. This Standard requires the entity to initially recognise a liability representing the entity's obligation to acquire or construct the asset and, if applicable, other performance obligations. The liability is initially measured at the amount of the financial asset received from the transferor. The liability is recognised until such time when (or as) the entity satisfies its obligations under the transfer.

Volunteer services

18 Local governments, government departments, general government sectors (GGSs) and whole of governments shall recognise an inflow of resources in the form of volunteer services as an asset (or an expense, when the definition of an asset is not met) if:

(a) the fair value of those services can be measured reliably; and

(b) the services would have been purchased if they had not been donated.

19 Any not-for-profit entity (including those listed in the preceding paragraph) may elect to recognise volunteer services, or a class of volunteer services, if the fair value of those services can be measured reliably, whether or not the services would have been purchased if they had not been donated.

20 Some volunteer services, such as professional services, might have readily observable market prices. In such circumstances, obtaining a reliable measure of fair value would be relatively straightforward. An entity is not required to perform an exhaustive search for volunteer services that might meet the recognition criteria in this Standard. Volunteer services that would have been purchased if they were not donated should be readily identifiable from the entity's operational requirements.

21 Recognised volunteer services are measured at their fair value.

22 On the initial recognition of volunteer services, an entity shall recognise any related amounts (such as contributions by owners or revenue) in accordance with other Australian Accounting Standards. The entity shall recognise the excess of the fair value of the volunteer services over the related amounts recognised in accordance with paragraph 10 as income immediately in profit or loss.

Disclosure

23 The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the effects of volunteer services and other transactions where an entity acquires an asset for consideration that is significantly less than fair value principally to enable the entity to further its objectives on the financial position, financial performance and cash flows of the entity. Paragraphs 24–41 specify requirements relating to this objective.

24 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

25 An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

26 An entity shall disclose income recognised during the period, disaggregated into categories that reflect how the nature and amount of income (and the resultant cash flows) are affected by economic factors. An entity considers disclosing separately the following categories of income:

(a) grants, bequests and donations of cash, other financial assets and goods;

(b) recognised volunteer services; and

(c) for government departments and other public sector entities, appropriation amounts recognised as income, by class of appropriation.

27 To assist users to make informed judgements about the contribution of volunteer services and inventories to the achievement of the entity's objectives during the reporting period, and the entity's dependence on such contributions for the achievement of its objectives in the future, an entity is encouraged to disclose qualitative information, by major class of transaction, about the nature of the entity's dependence arising from:

(a) volunteer services it receives, including those not recognised;

(b) inventories held but not recognised as assets during the period.

Non-contractual income arising from statutory requirements

28 An entity shall disclose income arising from statutory requirements (such as *taxes*, rates and *fines*) recognised during the period, disaggregated into categories that reflect how the nature and amount of income (and the resultant cash flows) are affected by economic factors.

29 To meet the objective in paragraph 23, an entity shall consider disclosing information about assets and liabilities recognised at the reporting date in accordance with this Standard, including the amounts of:

(a) receivables that are not a financial asset as defined in AASB 132 *Financial Instruments: Presentation* (eg income tax receivable from a taxpayer), and:

  (i) interest income recognised in relation to such receivables during the period; and

  (ii) impairment losses recognised in relation to such receivables during the period; and

(b) financial liabilities relating to prepaid taxes or rates for which the *taxable event* has yet to occur, and the future period(s) to which those taxes or rates relate.

30 Other information that may be appropriate for an entity to disclose includes, for each class of taxation income that the entity cannot measure reliably during the period in which the taxable event occurs (see paragraphs B26–B29):

(a) information about the nature of the tax;

(b) the reason(s) why that income cannot be measured reliably; and

(c) when that uncertainty might be resolved.

Transfers made to enable an entity to acquire or construct a non-financial asset for its own use

31 An entity shall disclose the opening and closing balances of financial assets arising from transfers made to enable an entity to acquire or construct a non-financial asset for its own use and the associated liabilities arising from such transfers, if not otherwise separately presented or disclosed. An entity shall also disclose income recognised in the reporting period that was included in an associated liability at the beginning of the period.

32 An entity shall disclose information about its obligations under such transfers, including a description of when the entity typically satisfies its obligations (for example, as the asset is constructed, upon completion of construction or when the asset is acquired).

33 An entity shall disclose an explanation of when it expects to recognise as income any liability for unsatisfied obligations as at the end of the reporting period. An entity may disclose this information in either of the following ways:

(a) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining obligations; or

(b) by using qualitative information.

34 An entity shall disclose the judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of income arising from transfers made to enable an entity to acquire or construct a non-financial asset for its own use. In particular, an entity shall explain the judgements, and changes in the judgements, made in determining the timing of satisfaction of obligations (see paragraphs 35 and 36).

35 For obligations that an entity satisfies over time, an entity shall disclose both of the following:

(a) the methods used to recognise income (for example, a description of the output methods or input methods used and how those methods are applied); and

(b) an explanation of why the methods used provide a faithful depiction of the entity's progress toward satisfying its obligations.

36 For obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when it has satisfied its obligations.

Restrictions

37 An entity is encouraged to disclose information about externally imposed restrictions that limit or direct the purpose for which resources controlled by the entity may be used. For example, an entity may elect to disclose an explanation of the judgements used in determining whether funds are restricted and any of, or any combination of, the following:

(a) assets to be used for specified purposes;

(b) components of equity divided into restricted and unrestricted amounts; and

(c) total comprehensive income divided into restricted and unrestricted amounts – either on the face of the statement of profit or loss and other comprehensive income or in the notes.

Compliance with parliamentary appropriations and other related authorities for expenditure

38 Paragraphs 39–41 apply only to government departments and other public sector entities that obtain part or all of their spending authority for the period from a parliamentary appropriation. The amounts disclosed in accordance with paragraphs 39–41 include any amounts appropriated in respect of which the entity recognises revenue or other income in accordance with another Australian Accounting Standard.

39 An entity shall disclose:

(a) a summary of the recurrent, capital or other major categories of amounts authorised for expenditure (including parliamentary appropriations), disclosing separately:

(i) the original amounts appropriated; and

(ii) the total of any supplementary amounts appropriated and amounts authorised other than by way of appropriation (eg by the Treasurer, other Minister or other legislative authority);

(b) the expenditures in respect of each of the items disclosed in (a) above; and

(c) the reasons for any material variances between the amounts appropriated or otherwise authorised and the associated expenditures, and any financial consequences for the entity of unauthorised expenditure.

40 For the purposes of resource allocation decisions, including assessments of accountability, this Standard requires that users of financial statements of government departments and other public sector entities that obtain part or all of their spending authority for the period from a parliamentary appropriation be provided with information about the amounts appropriated or otherwise authorised for the entity's use, and whether the entity's expenditures were as authorised. When spending limits imposed by parliamentary appropriation

or other authorisation have not been complied with, information regarding the amount of, and reasons for, the non-compliance is relevant for assessing the performance of management, the likely consequences of non-compliance, and the ability of the entity to continue to provide services at a similar or different level in the future.

41 Broad summaries of the major categories of appropriations and associated expenditures, rather than detailed reporting of appropriations for each activity or output, is sufficient for most users of such an entity's financial statements. Determining the level of detail and the structure of the summarised information is a matter of judgement.

Commencement of the legislative instrument

42 For legal purposes, this legislative instrument commences on 31 December 2018.

Appendix A
Defined terms

This appendix is an integral part of the Standard.

contributions by owners	Future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the entity which: (a) conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) can be sold, transferred or redeemed.
fines	Economic benefits received or receivable by an entity, as determined by a court or other law enforcement body, as a consequence of a breach of a law or regulation.
payable tax credits	Tax credits that are not limited to the amount of a taxpayer’s tax liability for the period, because they are available to beneficiaries regardless of whether they pay taxes.
tax relief	Preferential provisions of the tax law that provide particular taxpayers with concessions that are not available to others. Tax relief excludes **payable tax credits**.
taxable event	The event that the government, legislature or other authority has determined will be subject to taxation.
taxes	Economic benefits compulsorily paid or payable to public sector entities in accordance with laws and/or regulations established to provide income to the government. Taxes exclude **fines**.

Appendix B
Application guidance

This appendix is an integral part of the Standard. It describes the application of paragraphs 1–41.

Application of this Standard

B1 The following flowcharts summarise the main requirements of this Standard to assist in its application.

Chart 1

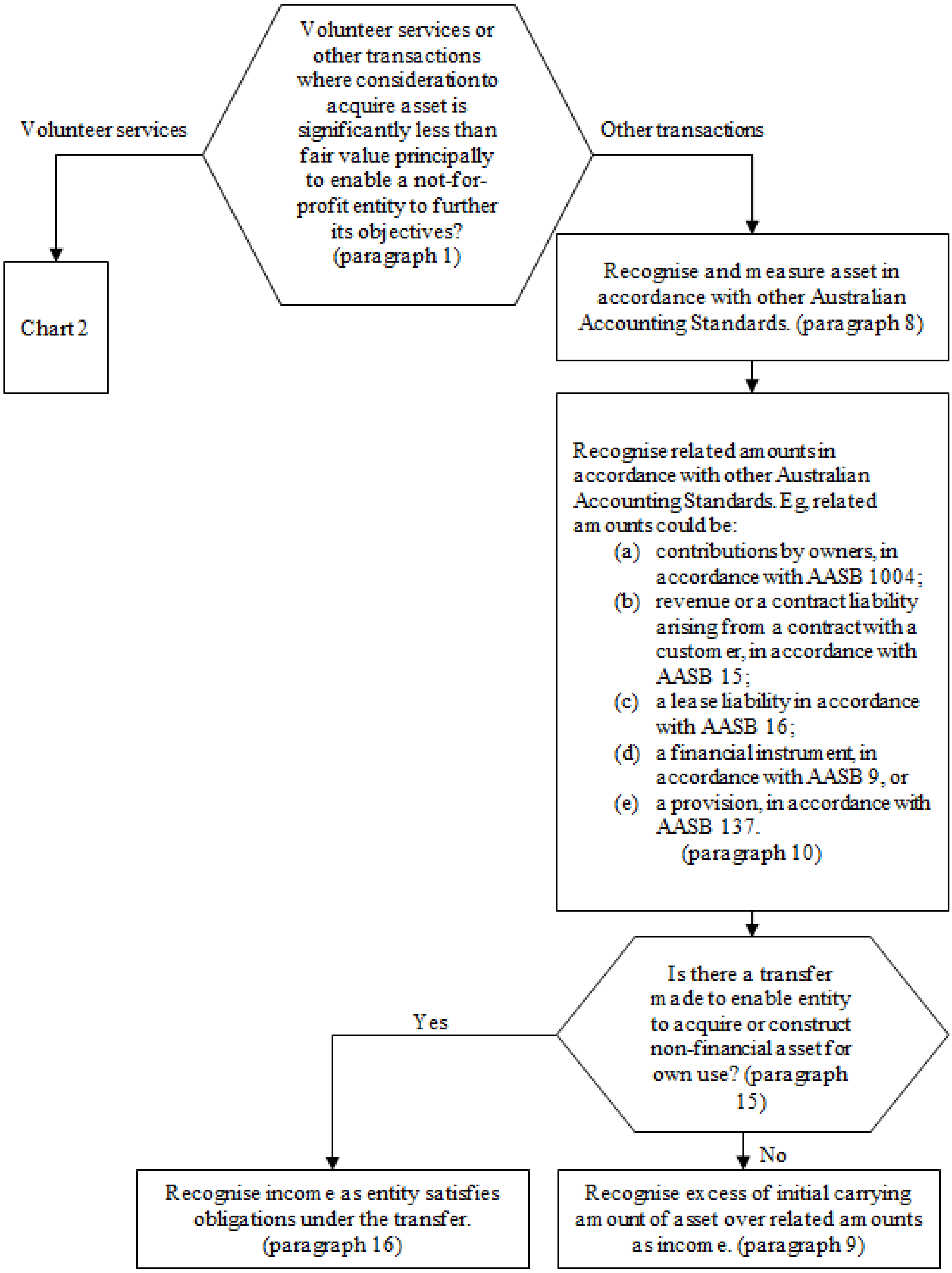
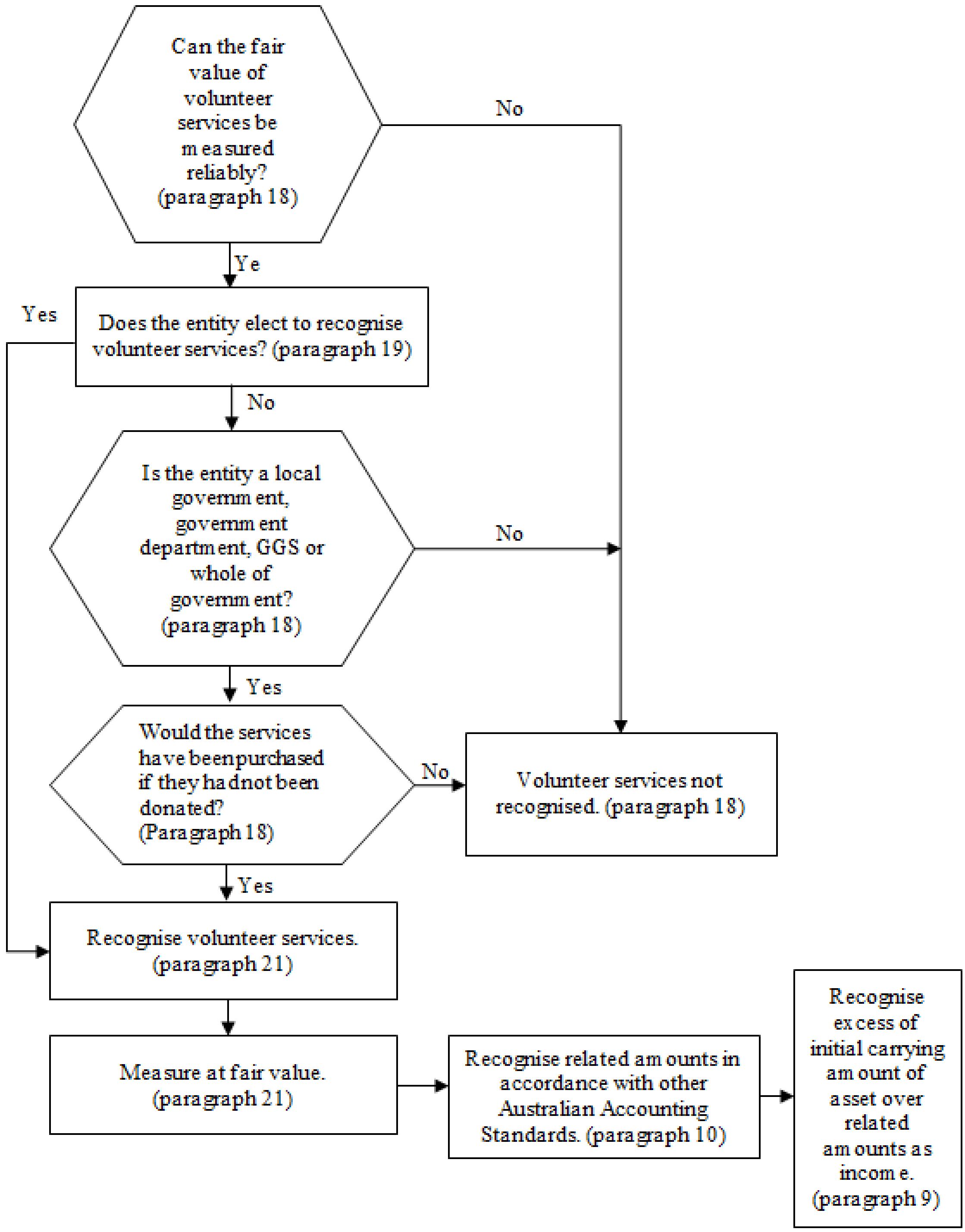


Chart 2



Scope (paragraph 7)

B2 This Standard provides guidance for transactions where on initial recognition of an asset the consideration for that asset was significantly less than fair value principally to enable the entity to further its objectives, and for volunteer services. Examples include:

(a) cash and other assets received from grants, bequests or donations;

(b) appropriations to government departments and other public sector entities;

(c) taxes, rates or fines;

(d) consideration in a contract with a customer; or

(e) purchases of assets.

B3 Where an asset is acquired for consideration that is significantly less than fair value but that differential is not principally related to furthering the entity's objectives that transaction is not within the scope of this Standard. Examples of such transactions include:

(a) distress sales; and

(b) trade discounts.

B4 When assessing whether the consideration for an asset is less than fair value principally to enable the entity to further its objectives, the entity may consider whether another entity could have obtained the asset under the same terms and conditions. If those terms and conditions are generally not available to other entities, it is more likely that the difference between the consideration for the asset and the fair value of the asset acquired is principally for enabling the entity to further its objectives.

B5 Grants, bequests, donations and appropriations are forms of transfers made voluntarily and may not require the entity to provide any consideration in exchange for obtaining the related assets. Where the entity provides no consideration for the grant, bequest, donation or appropriation, the entity has in-substance acquired the related asset, including cash, for no consideration. These transfers may or may not be made with restrictions or conditions on their use. Donations are transfers of assets that one entity makes to another entity and may be made without any attached conditions. Donations could be in the form of cash or another financial asset, donated goods, or volunteer services. Donations need not be made as a separate transaction; for example, a donation by a customer may be present in a contract in which a customer promises consideration in exchange for goods or services (eg a fundraising dinner).

B6 Volunteer services are services transferred by individuals or other entities without charge or for consideration significantly less than the fair value of those services. Whether such services (when recognised in accordance with paragraphs 18 and 19) are recognised as an asset or expense depends on the entity's determination whether it is probable that economic benefits will flow to the entity beyond the current accounting period. In many instances, the economic benefits of volunteer services will be consumed as the services are acquired.

B7 Entities may be recipients of volunteer services under voluntary or compulsory schemes operated in the public interest, for example:

(a) technical assistance from other governments or international organisations;

(b) persons convicted of offences may be required to perform community service for the entity;

(c) hospitals may receive the services of volunteers;

(d) schools may receive voluntary services from parents as teachers' aides or as board members; and

(e) local governments may receive the services of volunteer fire fighters.

B8 Entities may also be recipients of volunteer professional services that support their broader activities. For example, charities and religious organisations may receive free professional accounting or legal services.

B9 Government appropriations, which establish the authority to spend money for particular purposes, are a form of a transfer made voluntarily as the government is not compelled to make particular payments of amounts appropriated.

B10 Taxes, rates and fines are forms of transfers made compulsorily.

Recognition and measurement of income and related amounts (paragraphs 9–22)

B11 An entity recognises related contributions by owners, liabilities and revenue ('related amounts') on initial recognition of an asset in accordance with another Australian Accounting Standard where the consideration for that asset is significantly less than fair value principally to further the entity's objectives.

B12 Any income recognised in accordance with paragraph 9 is strictly the residual of the difference between the fair value of the asset recognised and consideration for that asset after deducting any related amounts described in paragraph 10.

Transfers made to enable an entity to acquire or construct a non-financial asset for its own use

B13 An entity that receives a financial asset, such as cash, in a transfer made to enable the entity to acquire or construct a non-financial asset for its own use shall apply the requirements of AASB 9 to that financial asset.

B14 On initial recognition of the financial asset, an entity shall identify each condition of the transfer that must be met before the entity is able to recognise the non-financial asset in accordance with the applicable Australian Accounting Standard. For each condition, the entity shall determine whether the obligation is satisfied over time or at a point in time. If an entity does not satisfy an obligation over time, the obligation is satisfied at a point in time.

B15 An entity shall apply a single method of measuring progress for each obligation satisfied over time and the entity shall apply that method consistently to similar obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a performance obligation satisfied over time.

Endowments

B16 An endowment is a donation to an entity for the ongoing support of the entity's objectives, and may (but not necessarily) be made as part of a bequest. An endowment may be made for the perpetual benefit of the entity in that the transfer is made with a requirement for the principal to be preserved, and only income earned on investment activity is available for use in furthering the entity's objectives.

B17 An endowment may include conditions pertaining to investment of the principal and the purpose to which investment income must be applied. For example, an endowment made to a university may be made on condition that the principal is invested and the investment income used to fund an annual scholarship. An entity shall consider whether the conditions of the transfer give rise to any related contribution by owners, liabilities or revenue that is recognised at the same time as the entity recognises an asset. For example, an entity may determine the stipulations give rise to a contract liability within the scope of AASB 15 for unperformed performance obligations relating to the transfer of goods or services under the terms of the endowment.

Bequests

B18 A bequest is a transfer made according to the provisions of a deceased person's Last Will and Testament. Whether the initial recognition of bequeathed items as assets in accordance with another Standard simultaneously gives rise to the recognition of income will depend on whether the entity recognises a liability, or other related amounts, as a result of the bequest. For example, the terms of a bequest may establish a contract between an entity and the estate that is within the scope of AASB 15 and which gives rise to a contract liability.

Provisions

Constructive obligations

B19 When an entity recognises an asset in accordance with another Australian Accounting Standard for consideration that is significantly less than fair value principally to enable the entity to further its objectives, the entity applies paragraph 10 to recognise any related amounts. When applying that paragraph an entity needs to consider whether a provision should be recognised in respect of its published policies and past practices in accordance with AASB 137 arising from a constructive obligation.

B20 Critical to recognising a provision for a constructive obligation an entity must demonstrate that its policies are sufficiently specific to raise a valid expectation on the part of other parties that the entity will discharge its responsibilities under its published policies. Determining whether an entity's policies are sufficiently specific to create such an expectation among other parties is a matter of judgement. However, it is unlikely that an entity's charter or stated objectives would satisfy the definition of a constructive obligation.

B21 An established pattern of past practices might also create an expectation among other parties. These past practices must also create a valid expectation among other parties that the entity will continue to adhere to those past practices in the future. While entities might establish a general pattern for utilising assets received, they often do not adhere to those patterns to such a degree as to create a valid expectation among other parties.

Legal obligations

B22 Contractual terms (implicit or explicit), legislation or another operation of the law might create a legal non-financial obligation for an entity. In these circumstances an entity applies AASB 137 to recognise a provision, if any, arising from those legal obligations.

B23 Provisions might arise from terms included in a lease, such as an obligation to return or restore the leased asset in its original condition. Paragraphs 24 and 25 of AASB 16 provide guidance on accounting for an obligation to maintain, or restore, assets to conditions specified in a lease. Where such an obligation exists the obligation is included in the measurement of the right-of-use asset and accounted for in accordance with AASB 137.

Parliamentary appropriations as income

B24 The parliamentary appropriation process currently adopted in some jurisdictions in Australia is such that government departments do not gain control of funds appropriated for their use until obligations are incurred or expenditures are made by the government department. In these jurisdictions, appropriations recognised as income are in the nature of a recovery of costs incurred for the acquisition of goods and services or for amounts otherwise expended.

B25 However, the nature of parliamentary appropriations, and the circumstances that give rise to a government department's recognition of such appropriations, can vary across different jurisdictions in Australia, and may vary for different types of appropriations within a particular jurisdiction. Similarly, the nature and content of appropriation legislation, the manner in which government departments' activities are funded, and the mechanisms by which parliament and the government ensure that the government departments' use of public funds is appropriate and consistent with government priorities as sanctioned by parliament, can change over time. Accordingly, the extent to which amounts appropriated for a government department's use are recognised as income of a particular reporting period is determined by reference to the characteristics of the appropriation process and the circumstances in which the government department recognises appropriated amounts.

Non-contractual income arising from statutory requirements

B26 Taxes, rates and fines do not give rise to a contract liability or revenue recognised in accordance with AASB 15, even when they are raised in respect of specific goods or services. This is because the entity does not promise to provide goods or services in an agreement that creates obligations enforceable against the entity by legal or equivalent means.

B27 Taxes, rates and fines are not contributions by owners acting in their capacity as owners.

Payable tax credits and other tax relief

B28 Amounts of *tax relief* that enter directly into the calculation of a taxpayer's tax liability (including tax allowances, exemptions and deductions, and 'non-payable tax credits') are treated as reductions in income (ie foregone income), rather than expenses. A 'non-payable tax credit' is a tax credit limited to the amount of the taxpayer's tax liability for the period. An example of tax relief that enters directly into the calculation of a taxpayer's tax liability is where taxpayers are permitted tax deductions for self-education expenses. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession.

B29 In contrast, a *payable tax credit* is a tax credit that is not limited to the amount of the taxpayer's tax liability for the period; that is, any excess of the tax credit over the tax liability for the period would be payable to the taxpayer. Such tax credits might be payable to taxpayers as part of a programme in which the same amount of benefit is paid to taxpayers and non-taxpayers alike (the latter being payable exclusively in the form of a cash benefit). For example, a government may use the tax system as a convenient method of paying benefits to taxpayers, which would otherwise be paid using another payment method, such as writing a cheque, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of an individual's health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability (by providing payable tax credits), making a payment by cheque or by paying an amount directly to the insurer. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently, this amount is an expense of the government and is recognised separately from its tax income. Tax income is measured gross of any expenses incurred by granting payable tax credits.

Appendix C
Effective date and transition

This appendix is an integral part of the Standard.

Effective date

C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted provided that entities apply AASB 15 *Revenue from Contracts with Customers* to the same period. If an entity applies this Standard earlier, it shall disclose that fact.

Transition

C2 For the purposes of the transition requirements in paragraphs C3–C11:

(a) the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard; and

(b) a completed contract is a contract or transaction for which the entity has recognised all of the income in accordance with AASB 1004 *Contributions*.

C3 An entity shall apply this Standard either:

(a) retrospectively to each prior reporting period presented in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application in accordance with paragraphs C6–C10.

C4 Notwithstanding the requirements of paragraph 28 of AASB 108, when this Standard is first applied, an entity need only present the quantitative information required by paragraph 28(f) of AASB 108 for the annual reporting period immediately preceding the first annual reporting period for which this Standard is applied (the 'immediately preceding period') and only if the entity applies this Standard retrospectively in accordance with paragraph C3(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

C5 When applying this Standard retrospectively in accordance with paragraph C3(a), as a practical expedient an entity need not restate completed contracts that:

(a) begin and end within the same annual reporting period; or

(b) are completed contracts at the beginning of the earliest period presented.

If an entity applies this expedient, it shall do so consistently to all completed contracts within all reporting periods presented and shall disclose the use of this expedient.

C6 If an entity elects to apply this Standard retrospectively in accordance with paragraph C3(b), the entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application. Under this transition method, an entity may elect to apply this Standard retrospectively only to contracts and transactions that are not completed contracts at the date of initial application.

C7 For the reporting period that includes the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied retrospectively in accordance with paragraph C3(b):

(a) the amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to AASB 1004 *Contributions* before the change; and

(b) an explanation of the reasons for significant changes identified in paragraph C7(a).

Leases with significantly below-market terms and conditions

Leases classified as operating leases

C8 If an entity applies this Standard before applying AASB 16 *Leases*, and notwithstanding the requirements in paragraph C3, for leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were classified as operating leases in accordance with AASB 117 *Leases*, the entity shall not apply the requirements of this Standard to recognise any asset or income. Instead, the entity shall continue to apply its accounting policy under AASB 117 to those operating leases. On transition to AASB 16 *Leases*, the entity shall apply the transition requirements of that Standard to leases classified as operating leases in accordance with AASB 117.

Leases classified as finance leases

C9 If an entity applies this Standard before applying AASB 16, for leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were classified as finance leases in accordance with AASB 117, and if an entity elects to apply this Standard in accordance with:

(a) paragraph C3(a) – the entity shall:

(i) measure the leased asset at fair value;

(ii) measure the lease liability in accordance with AASB 117;

(iii) recognise any related items in accordance with paragraph 10; and

(iv) recognise any income arising as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the earliest period presented; or

(b) paragraph C3(b) – the entity shall:

(i) measure the leased asset at fair value at the date of initial application of this Standard;

(ii) measure the lease liability in accordance with AASB 117;

(iii) recognise any related items in accordance with paragraph 10; and

(iv) recognise any income arising as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application of this Standard.

C10 An entity may, as a practical expedient, apply paragraph C9 to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of this approach would not differ materially from applying paragraph C9 to the individual leases within that portfolio. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

References to AASB 9

C11 If an entity applies this Standard but does not yet apply AASB 9 *Financial Instruments*, any reference in this Standard to AASB 9 shall be read as a reference to AASB 139 *Financial Instruments: Recognition and Measurement.*

Appendix D
Amendments to other Standards

This appendix sets out the amendments to other Australian Accounting Standards that are a consequence of the AASB issuing this Standard.

The amendments set out in this appendix apply to entities and financial statements in accordance with the application of the Standards and Interpretations set out in AASB 1057 *Application of Australian Accounting Standards* (as amended).

The amendments apply to annual reporting periods beginning on or after 1 January 2019, except that the amendment to AASB 117 applies to periods beginning before 1 January 2019 and the deferral of AASB 15 amendments apply to periods beginning on or after 1 January 2017.

If an entity applies this Standard to an earlier period, it shall also apply these amendments to that earlier period. However, the AASB 1 and AASB 16 amendments are applied to an earlier period only if AASB 16 is also applied to that period.

Amendments are made to the latest principal version of a Standard (or an Interpretation), unless otherwise indicated. The amendments also apply, as far as possible, to earlier principal versions of the amended Standards and Interpretations when this Standard is applied for earlier periods, as necessary.

This appendix uses underlining, striking out and other typographical material to identify some of the amendments to a Standard or an Interpretation, in order to make the amendments more understandable. However, the amendments made by this appendix 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.

Deferral of AASB 15 for Not-for-Profit Entities

These amendments apply to periods beginning on or after 1 January 2017.

Paragraph AusC1.1 is added to AASB 15.

Furthermore, the deferrals, reversals and revised wording for pronouncements set out in paragraphs 13–18 of AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* apply to not-for-profit entities so as to determine the content of the pronouncements for such entities effective 1 January 2019 instead of 1 January 2018. The consequential amendments to other Standards originally set out in AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* – except for the amendments to AASB 9 *Financial Instruments* (December 2009) and AASB 9 (December 2010) – may be applied by not-for-profit entities to annual reporting periods beginning before 1 January 2019.

AusC1.1 Notwithstanding paragraph C1, this Standard applies to not-for-profit entities for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, provided that AASB 10XX *Income of Not-for-Profit Entities* is also applied to the same period. If a not-for-profit entity applies this Standard earlier, it shall disclose that fact.

AASB 1 *First-time Adoption of Australian Accounting Standards*

In Appendix D, paragraphs AusD7.1, AusD9D.1 and AusD9D.2 are added. Paragraphs D5–D7, D9 and D9B–D9D have not been amended, but are included for ease of reference.

Deemed cost

D5 An entity may elect to measure an item of property, plant and equipment at the date of transition to Australian Accounting Standards at its fair value and use that fair value as its deemed cost at that date.

D6 A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to Australian Accounting Standards as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) fair value; or

(b) cost or depreciated cost in accordance with Australian Accounting Standards, adjusted to reflect, for example, changes in a general or specific price index.

D7 The elections in paragraphs D5 and D6 are also available for:

(a) …

(aa) right-of-use assets (AASB 16 *Leases*); and

(b) …

<u>AusD7.1</u> <u>Notwithstanding paragraphs D5–D7, where a lessee is a not-for-profit entity and the lease had at inception significantly below-market terms and conditions principally to enable the entity to further its objectives, the entity shall measure the right-of-use asset at fair value at the beginning of the current period presented in the entity's first Australian-Accounting-Standards financial statements or at the previous GAAP valuation if that valuation broadly reflects that fair value.</u>

…

Leases

D9 A first-time adopter may assess whether a contract existing at the date of transition to Australian Accounting Standards contains a lease by applying paragraphs 9–11 of AASB 16 to those contracts on the basis of facts and circumstances existing at that date.

D9B When a first-time adopter that is a lessee recognises lease liabilities and right-of-use assets, it may apply the following approach to all of its leases (subject to the practical expedients described in paragraph D9D):

(a) measure a lease liability at the date of transition to Australian Accounting Standards. A lessee following this approach shall measure that liability at the present value of the remaining lease payments (see paragraph D9E), discounted using the lessee's incremental borrowing rate (see paragraph D9E) at the date of transition to Australian Accounting Standards.

(b) measure a right-of-use asset at the date of transition to Australian Accounting Standards. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:

(i) its carrying amount as if AASB 16 had been applied since the commencement date of the lease (see paragraph D9E), but discounted using the lessee's incremental borrowing rate at the date of transition to Australian Accounting Standards; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of transition to Australian Accounting Standards.

(c) apply AASB 136 to right-of-use assets at the date of transition to Australian Accounting Standards.

D9C Notwithstanding the requirements in paragraph D9B, a first-time adopter that is a lessee shall measure the right-of-use asset at fair value at the date of transition to Australian Accounting Standards for leases that meet the definition of investment property in AASB 140 and are measured using the fair value model in AASB 140 from the date of transition to Australian Accounting Standards.

D9D A first-time adopter that is a lessee may do one or more of the following at the date of transition to Australian Accounting Standards, applied on a lease-by-lease basis:

(a) …

<u>AusD9D.1</u> <u>Notwithstanding paragraphs D9B–D9D, where a lessee is a not-for-profit entity and the lease had at inception significantly below-market terms and conditions principally to enable the entity to further its objectives, all references in those paragraphs to the date of transition to Australian Accounting Standards shall be read as referring to the beginning of the current period presented in the entity's first Australian-</u>

Accounting-Standards financial statements. Consequently, the entity shall measure the lease liability and the right-of-use asset at that date. The right-of-use asset shall be measured in accordance with paragraph AusD7.1.

AusD9D.2 Where a lessee is a not-for-profit entity and the lease had at inception significantly below-market terms and conditions principally to enable the entity to further its objectives, the entity shall also recognise any related items in accordance with paragraph 10 of AASB 10XX *Income of Not-for-Profit Entities*. Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at the beginning of the current period presented in the entity's first Australian-Accounting-Standards financial statements.

AASB 15 *Revenue from Contracts with Customers*

In Appendix C, paragraph AusC2.1 is added.

AusC2.1 In respect of not-for-profit entities, the reference in paragraph C2(b) to a completed contract also includes contracts for which the entity has recognised all of the revenue in accordance with AASB 1004 *Contributions*, or revenue in combination with a provision in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

AASB 16 *Leases*

Paragraph Aus25.1 and, in Appendix C, paragraphs AusC5.1, AusC5.2, AusC8.1 and AusC11.1 are added.

Aus25.1 Notwithstanding paragraphs 23–25, where the lessee is a not-for-profit entity and the lease has significantly below-market terms and conditions principally to enable the entity to further its objectives, the right-of-use asset shall initially be measured at fair value in accordance with AASB 13 *Fair Value Measurement*. AASB 10XX *Income of Not-for-Profit Entities* addresses the recognition of related amounts.

AusC5.1 Not-for-profit entities applying this Standard retrospectively in accordance with paragraph C5(a) to leases that at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives shall:

(a) measure the right-of-use asset at fair value;

(b) measure the lease liability in accordance with this Standard; and

(c) recognise any related items in accordance with paragraph 10 of AASB 10XX *Income of Not-for-Profit Entities*.

Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the earliest prior period presented.

AusC5.2 Notwithstanding paragraph AusC5.1, not-for-profit entities that adopted AASB 10XX in an earlier reporting period are not required to remeasure the fair value of the right-of-use asset arising from leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were previously classified as finance leases applying AASB 117. Instead, the entity shall transition those leases in accordance with paragraph C11, regardless of which transition option in paragraph C5 is applied.

AusC8.1 Not-for-profit entities applying this Standard retrospectively in accordance with paragraph C5(b) to leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were previously classified as operating leases applying AASB 117 shall:

(a) notwithstanding paragraph C8(b), measure the right-of-use asset at fair value at the date of initial application of this Standard;

(b) measure the lease liability in accordance with paragraph C8(a); and

(c) recognise any related items in accordance with paragraph 10 of AASB 10XX.

Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application of this Standard.

AusC11.1 Subject to paragraph AusC5.2 and notwithstanding paragraph C11, not-for-profit entities applying this Standard retrospectively in accordance with paragraph C5(b) to leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were previously classified as finance leases applying AASB 117 shall:

(a) measure the right-of-use asset at fair value at the date of initial application of this Standard;

(b) measure the lease liability in accordance with this Standard; and

(c) recognise any related items in accordance with paragraph 10 of AASB 10XX.

Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application of this Standard.

AASB 101 *Presentation of Financial Statements*

Paragraph Aus16.2 is deleted.

Aus16.2 [Deleted by the AASB]

AASB 102 *Inventories*

Paragraph Aus10.1 is amended and paragraph Aus10.2 is added.

Aus10.1 Notwithstanding paragraph 10 <u>and subject to paragraph Aus10.2</u>, ~~in respect of~~ not-for-profit entities <u>shall initially measure the cost of inventories at fair value in accordance with AASB 13 *Fair Value Measurement* where the consideration for those inventories is significantly less than fair value principally to enable the entity to further its objectives</u>~~, where inventories are acquired at no cost, or for nominal consideration, the cost shall be the current replacement cost as at the date of acquisition~~. <u>AASB 10XX *Income of Not-for-Profit Entities* addresses the recognition of related amounts.</u>

Aus10.2 As a practical expedient, where a not-for-profit entity acquires inventory for consideration that is significantly less than fair value principally to enable the entity to further its objectives, the entity may elect to recognise an item of inventory based on an assessment of the materiality either of the individual item or of inventories at an aggregate or portfolio level.

AASB 112 *Income Taxes*

Paragraphs 4 and Aus33.1 are amended. Paragraph Aus4.1 is added.

4 This Standard does not deal with the methods of accounting for government grants (see AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* ~~or, for not-for-profit entities, AASB 1004 *Contributions*~~) or investment tax credits. However, this Standard does deal with the accounting for temporary differences that may arise from such grants or investment tax credits.

Aus4.1 In respect of not-for-profit entities, AASB 10XX *Income of Not-for-Profit Entities* and AASB 15 *Revenue from Contracts with Customers* address the accounting for government grants.

…

Aus33.1 In respect of not-for-profit entities, a deferred tax asset will not arise on a non-taxable government grant relating to an asset. <u>For example,</u> ~~Under AASB 1004 *Contributions*~~ <u>under AASB 10XX *Income of Not-for-Profit Entities*</u>, <u>where</u> a not-for-profit entity accounts for the receipt of non-taxable government grants as income rather than as deferred income ~~when those grants are controlled by the entity. As such~~, a temporary difference does not arise.

AASB 116 *Property, Plant and Equipment*

Paragraph Aus15.2 is deleted, and paragraphs Aus15.1 and Aus15.3 are amended.

Aus15.1 **Notwithstanding paragraph 15, ~~in respect of~~ *not-for-profit entities*~~,~~ shall initially measure the cost of an item of property, plant and equipment at fair value in accordance with AASB 13 *Fair Value Measurement* where the consideration for the asset is significantly less than fair value principally to enable the entity to further its objectives ~~where an asset is acquired at no cost, or for a nominal cost, the cost is its *fair value* as at the date of acquisition~~. AASB 10XX *Income of Not-for-Profit Entities* addresses the recognition of related amounts.**

Aus15.3 In respect of not-for-profit entities, for the purposes of this Standard, the initial recognition and measurement at fair value of an item of property, plant and equipment~~, acquired at no or nominal cost, consistent with the requirements of paragraph Aus15.1~~ in accordance with paragraph Aus15.1~~,~~ does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 31, and the supporting commentary in paragraphs ~~32 to~~ 34 and 35, only apply where an entity elects to revalue an item of property, plant and equipment ~~in subsequent reporting periods~~ after its recognition.

Paragraph Aus6.2 in Appendix A *Australian defined terms* is amended.

Aus6.2 Examples of property, plant and equipment held by not-for-profit public sector entities ~~and for-profit government departments~~ include, but are not limited to, infrastructure, cultural, community and heritage assets.

The scoping guidance to the Australian implementation guidance accompanying AASB 116 is amended.

Australian implementation guidance

This guidance accompanies, but is not part of, AASB 116. This guidance is pertinent to not-for-profit public sector entities ~~and for-profit government departments~~ that hold heritage or cultural assets.

AASB 117 *Leases*

The amendments to AASB 117 apply to periods beginning before 1 January 2019.

Paragraph Aus20.1 is added.

Aus20.1 **Notwithstanding paragraph 20, the leased asset shall initially be measured at fair value in accordance with AASB 13 *Fair Value Measurement* where:**

(a) **at inception the lease has significantly below-market terms and conditions principally to enable the lessee to further its objectives; and**

(b) **the lessee applies AASB 10XX *Income of Not-for-Profit Entities* to the period.**

AASB 10XX addresses the recognition of related amounts.

AASB 128 *Investments in Associates and Joint Ventures*

Paragraph Aus10.1 is added.

Aus10.1 Notwithstanding paragraph 10, not-for-profit entities shall initially measure the cost of an investment in an associate or joint venture at fair value in accordance with AASB 13 *Fair Value Measurement* where the consideration for the investment is significantly less than fair value principally to enable the entity to further its objectives. AASB 10XX *Income of Not-for-Profit Entities* addresses the recognition of related amounts.

AASB 138 *Intangible Assets*

Paragraph Aus24.1 is amended.

Aus24.1 Notwithstanding paragraph 24, ~~in respect of~~ not-for-profit entities~~, where an asset is acquired at no cost, or for a nominal cost,~~ shall initially measure the cost of the asset at ~~is its~~ *fair value* ~~as at the date of acquisition~~ where the consideration for the asset is significantly less than fair value principally to enable the entity to further its objectives. AASB 10XX *Income of Not-for-Profit Entities* addresses the recognition of related amounts.

The footnote to paragraph 44 is amended.

AASB 120 only applies to for-profit entities. Not-for-profit entities shall initially measure the intangible asset at fair value where the consideration for the asset is significantly less than the fair value of the asset principally to enable the entity to further its objectives ~~are required to recognise the intangible asset and the grant initially at fair value in accordance with AASB 1004 *Contributions*~~.

AASB 140 *Investment Property*

Paragraph Aus20.1 is amended.

Aus20.1 Notwithstanding paragraph 20, ~~in respect of~~ not-for-profit entities~~,~~ shall initially measure the cost of the asset at fair value in accordance with AASB 13 *Fair Value Measurement* where the consideration for the asset is significantly less than fair value principally to enable the entity to further its objectives~~where an investment property is acquired at no cost or for nominal cost, its cost shall be deemed to be its fair value as at the date of acquisition~~. AASB 10XX *Income of Not-for-Profit Entities* addresses the recognition of related amounts.

AASB 141 *Agriculture*

Paragraph Aus38.1 is amended.

Aus38.1 Notwithstanding paragraphs 34-38, not-for-profit entities ~~recognise~~ shall account for government grants related to a biological asset in accordance with ~~AASB 1004 *Contributions*~~ AASB 10XX *Income of Not-for-Profit Entities*.

AASB 1004 *Contributions*

Paragraphs 1–5 are deleted and paragraph 6 is replaced.

6 The following table identifies which paragraphs are applicable to each type of entity to which this Standard applies:

Type of entity to which the paragraph is applicable	**Content of paragraphs**	**Para No.**
Government departments	Parliamentary appropriations	32
	Liabilities of government departments assumed by other entities	39 – 43A
	Contributions by owners and distributions to owners	48 – 53
	Restructure of administrative arrangements	54 – 59
Other government controlled not-for-profit entities	Restructure of administrative arrangements	54 – 59
Local governments and whole of governments	Contributions by owners and distributions to owners	48 – 53

Paragraphs 11–31, 33–38, 44–47 and 60–68 and the related headings and scoping guidance are deleted. Paragraph 32 is amended and scoping guidance added. The scoping guidance before paragraph 39 is amended. Paragraph 43A is added. Appendix B *Comparison of AASB 1004 with AAS 27, AAS 29 and AAS 31* accompanying AASB 1004 is deleted.

Parliamentary Appropriations to Government Departments

Paragraph 32 of this Standard applies only to government departments.

32 **Parliamentary appropriations over which a government department gains control during the reporting period shall be recognised as~~:~~**

~~(a)~~ ~~income of that reporting period where the appropriation:~~

~~(i)~~ ~~satisfies the definition of income in the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*); and~~

~~(ii)~~ ~~satisfies the recognition criteria for income;~~

~~(b)~~ a direct adjustment to equity where the appropriation satisfies the definition of a contribution by owners~~; or~~

~~(c)~~ ~~a liability of the government department where the appropriation:~~

~~(i)~~ ~~satisfies the definition of liabilities in the *Framework*; and~~

~~(ii)~~ ~~satisfies the recognition criteria for liabilities in the *Framework*.~~

…

Liabilities of Government Departments Assumed by Other Entities

Paragraphs 39 to ~~43~~ 43A of this Standard apply only to government departments.

…

43A **A government department shall disclose liabilities that were assumed during the reporting period by the government or other entity.**

Paragraphs 54–57 and the related scoping guidance are amended.

Restructure of Administrative Arrangements

Paragraphs 54 to 59 of this Standard apply only to government departments and other government controlled not-for-profit entities ~~and for-profit government departments~~.

54 **In relation to a *restructure of administrative arrangements*, a government controlled not-for-profit transferor entity ~~or a for-profit government department transferor entity~~ shall recognise distributions to owners and a government controlled not-for-profit transferee entity ~~or a for-profit government department transferee entity~~ shall recognise contributions by owners in respect of assets transferred.**

55 **In relation to a restructure of administrative arrangements, a government controlled not-for-profit transferor entity ~~or a for-profit government department transferor entity~~ shall recognise contributions by owners and a government controlled not-for-profit transferee entity ~~or a for-profit government department transferee entity~~ shall recognise distributions to owners in respect of liabilities transferred.**

56 **When both assets and liabilities are transferred as a consequence of a restructure of administrative arrangements, a government controlled not-for-profit transferor entity ~~or a for-profit government department transferor entity~~ and a government controlled not-for-profit transferee entity ~~or a for-profit government department transferee entity~~ shall recognise a net contribution by owners or distribution to owners, as applicable.**

57 **When activities are transferred as a consequence of a restructure of administrative arrangements, a government controlled not-for-profit transferee entity ~~or a for-profit government department transferee entity~~ shall disclose the expenses and income attributable to the transferred activities for the reporting period, showing separately those expenses and items of income recognised by the transferor during the reporting period. If disclosure of this information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.**

AASB 1049 *Whole of Government and General Government Sector Financial Reporting*

In the Illustrative Examples accompanying AASB 1049, the explanatory notes supporting illustrative examples A and B are amended.

Explanatory Notes Supporting Illustrative Examples A and B

…

q **Liabilities – Provisions**

…

q(ii) …

[Note: Depending on the arrangements operating in a particular jurisdiction, a GGS, as an income tax collector, may not be able to recognise revenue unless it meets the criteria in ~~AASB 1004 *Contributions*~~ <u>AASB 10XX *Income of Not-for-Profit Entities*</u>. …

AASB 1057 *Application of Australian Accounting Standards*

Paragraphs 6 and 11 are amended. Paragraph 20A is added.

6 **AASB 8 *Operating Segments* applies to:**

(a) **each for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**

(b) **general purpose financial statements of each other for-profit reporting entity ~~other than for-profit government departments~~; and**

(c) **financial statements of a for-profit entity ~~other than for-profit government departments~~ that are, or are held out to be, general purpose financial statements.**

…

11 **AASB 1004 *Contributions* applies to <u>general purpose financial statements of local governments, government departments, other government controlled not-for-profit entities and whole of governments.</u>~~:~~**

~~**(a)** **each not-for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;**~~

~~**(b)** **general purpose financial statements of each other not-for-profit entity that is a reporting entity;**~~

~~**(c)** **financial statements of not-for-profit entities that are, or are held out to be, general purpose financial statements; and**~~

~~**(d)** **financial statements of GGSs prepared in accordance with AASB 1049.**~~

…

20A AASB 10XX *Income of Not-for-Profit Entities* applies to:

(a) each not-for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial statements of each other not-for-profit entity that is a reporting entity; and

(c) financial statements of a not-for-profit entity that are, or are held out to be, general purpose financial statements.

Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*

Paragraphs 3, 6, 19, 20 and 30 are amended.

ISSUE

…

3 This Interpretation addresses the essential characteristics of contributions by owners and provides indicators of when those characteristics exist. With one significant exception, it applies to parliamentary appropriations and other transfers to statutory authorities, government departments and government-owned corporations from other entities within the same group of entities but only where the transferee is wholly owned by the controlling government. The exception is that this Interpretation does not apply in respect of "restructures of administrative arrangements", as defined in AASB 1004. In such cases the requirements in AASB 1004 apply, which means that government departments and other government controlled not-for-profit entities ~~and for-profit government departments~~ account for "restructures of administrative arrangements" as transactions with owners in their capacity as owners.

…

CONSENSUS

6 This Interpretation applies to transfers of assets, or assets and liabilities, to wholly-owned public sector entities from other entities within the same group of entities, other than:

(a) …

(b) transfers to or from government departments and other government controlled not-for-profit entities ~~or for-profit government departments~~ arising as a result of a "restructure of administrative arrangements", which is defined in AASB 1004 as:

…

Classification of Transfers as Contributions by Owners

19 However, AASB 1004 requirements relating to contributions by and distributions to owners, other than in relation to restructures of administrative arrangements by government departments and other government controlled not-for-profit entities ~~or for-profit government departments~~:

(a) …

20 This Interpretation adopts the views that the determinant of whether a transfer to a public sector entity should be classified as a contribution by owners is whether the transfer meets the definition of contributions by owners in paragraph 18, and that such classification does not depend:

(a) …

(b) on the composition and extent of the transfer, for example (other than for government departments and other government controlled not-for-profit entities ~~or for-profit government departments~~ involved in restructures of administrative arrangements) whether it involves a restructuring; or

(c) …

Financial Interest in the Net Assets of the Entity which can be Sold, Transferred or Redeemed

…

30 Because any transfer by a parent to its wholly-owned subsidiary (other than a transfer made as consideration for the provision by the transferee of assets or services at fair value to the transferor) has the potential to satisfy the definition of contributions by owners in paragraph 18, this Interpretation adopts the view that it is necessary to refer to the form of the transfer to determine whether it should be classified as a contribution by owners. Accordingly, if the transferee neither issues equity instruments nor is a party to an agreement setting out the respective ownership interests of equity contributors, in relation to the transfer, formal designation that the transfer is to be added to the transferee's contributed equity is necessary to identify contributions by owners (except in relation to government departments and other government controlled not-for-profit entities ~~or for-profit government departments~~ involved in restructures of administrative arrangements).

In the Appendix accompanying Interpretation 1038, paragraph A1 is amended.

A1 This appendix discusses five scenarios in a whole of government context to illustrate the classification of certain transfers within a group of entities in which the parent is either a government or a subsidiary of a government, in accordance with the Interpretation. It illustrates the position of interposed parents in a series of such transfers, and the application of paragraphs 10, 11 and 13 of the Interpretation to the classification of such transfers within the group. None of the transfers illustrated in this appendix is made as consideration for the provision by the transferee of assets or services at fair value to the transferor. In addition, none of the transfers involves the issuance or cancellation of equity instruments; and none of the transfers are in relation to a government department or other government controlled not-for-profit entity ~~or a for-profit government department~~ in respect of a "restructure of administrative arrangements" as defined in AASB 1004 *Contributions.*

Illustrative examples

These illustrative examples accompany, but are not part of, AASB 10XX. They illustrate aspects of AASB 10XX, but are not intended to provide interpretative guidance.

IE1 The following examples portray hypothetical situations. They are intended to illustrate how a not-for-profit entity might apply some of the requirements of AASB 10XX *Income of Not-for-Profit Entities* to particular types of transactions, on the basis of the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern need to be evaluated when applying AASB 10XX.

Scope (paragraph 7)

IE2 Example 1 identifies transactions that are not within the scope of AASB 10XX.

Example 1—Goods purchased with a trade discount or in a distress sale

Entity A makes the following purchases:

- printers, from Seller A, at a price that included a trade discount available to all bulk purchasers; and
- computers, as part of a liquidation sale from Seller B, at the same price available to the public – the sale price is significantly below the fair value of the computers.

Accounting treatment

Although the consideration paid (sale price) for the computers and printers is significantly less than the asset's fair value in accordance with AASB 13 *Fair Value Measurement*, as:

- the trade discounts and liquidation prices are available to the public generally; and
- there are no factors indicating that Entity A received the discounted prices in order to further its objectives;

in accordance with paragraph 7, these transactions are outside the scope of AASB 10XX.

Recognition and measurement of income and related amounts (paragraphs 9–22)

IE3 Examples 2-8 illustrate the requirements in AASB 10XX for identifying whether income and related amounts are recognised in accordance with paragraphs 9 and 10 on the initial recognition of an asset. In addition, the following requirements are illustrated in the examples in identifying related amounts in the form of:

(a) contributions by owners, in accordance with AASB 1004;

(b) a financial instrument, in accordance with AASB 9;

(c) a lease liability arising in a lease contract, in accordance with AASB 16; and

(d) revenue or contract liability arising from a contract with a customer, in accordance with AASB 15.

Contributions by owners

Example 2—Contributions by owners (transfer of cash appropriation)

A Government department transfers cash appropriations to its controlled entity and designates the transfer before it occurs as an equity contribution in accordance with paragraph 8(c) of AASB Interpretation 1038

Contributions by Owners Made to Wholly-Owned Public Sector Entities, as identified in AASB 1048 *Interpretation of Standards*.

Scope and asset recognition

The controlled entity determines:

- the cash appropriation is an asset the controlled entity acquired for no consideration to further the objectives of the controlled entity. Accordingly, the grant is within the scope of AASB 10XX; and
- it controls a financial asset within the scope of AASB 9.

Accounting treatment

In accordance with paragraph 10, the related amount for the cash appropriation is accounted for as a contribution by owners, in equity, as it meets the requirements of AASB Interpretation 1038 and AASB 1004.

Example 3—Contributions by owners to a private sector not-for-profit entity

Charity P makes a contribution of $500,000 to Company S, which operates child care centres. Company S is a company limited by guarantee with required member contributions of $10. Charity P controls the voting rights and in accordance with AASB 10 *Consolidated Financial Statements* consolidates Company S.

Scope and asset recognition

Company S determines:

- the cash from the contribution is an asset Company S acquired for no consideration to further the objectives of the Company S. Accordingly, the cash injection is within the scope of AASB 10XX; and
- it controls a financial asset within the scope of AASB 9.

Accounting treatment

In accordance with paragraph 10, the related amount for the cash contribution is accounted for as a contribution by owners in equity. As Charity P is a member (owner) of Company S, it is a transfer from an owner acting in their capacity as an owner. No services are being provided by Company S, nor is there an obligation to repay the funds.

Financial instruments, bequests and endowments

IE4 Example 4 illustrates the requirements of paragraphs 9 and 10 in AASB 10XX for the accounting treatment for financial instruments, bequests and endowments. Additionally, example 4A illustrates the identification of related amounts in the form of a financial instrument, in accordance with AASB 9.

Example 4—Endowment made to a university

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

- University A is required to provide free student accommodation for 1 student for 1 year, for as long as University A continues to operate as a university and after the real value of the principal of $2 million is preserved;
- the $2 million cash can be invested at the University's discretion;
- income generated from investment of the principal may be applied to provide the student accommodation;
- any excess income generated from the investment of the principal is permitted to be spent on other university activities; and
- if the university breaches the terms of the endowment, the university is required to return the real value of the principal.

Scope and asset recognition

University A determines:

- the $2 million endowment is an asset the university acquired for no consideration to further the objectives of the university. Accordingly, the endowment is within the scope of AASB 10XX; and
- it controls a financial asset ($2 million) within the scope of AASB 9.

Example 4A – Income (provision of services, no sufficiently specific enforceable agreement, no sufficiently specific performance obligation)

Based on the facts and circumstances outlined above, on gaining control of the endowment of $2 million, University A determines the related amounts for the $2 million are not a:

- contribution by owners as the alumnus does not control or have an ownership interest in University A;
- contract with a customer within the scope of AASB 15. The university 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. However, while the the promise to provide student accommodation is a transfer of goods or services, it is not a sufficiently specific performance obligation relating to the controlled asset. While the promise to provide student accommodation is distinct, the university cannot identify when its obligation is satisfied as the promise is continuous as long as University A continues to operate as a university. University A must be able to identify when the performance obligation is satisfied for the promise to be identified as sufficiently specific (paragraph F21 of AASB 15);
- lease liability as defined in AASB 16, as the agreement University A enters into with the alumnus does not provide a right-to-use a specified asset (the accommodation provided varies from year to year);
- financial liability within the scope of AASB 9 or AASB 132 as there is no obligation to provide cash, only accommodation; or
- liability within the scope of AASB 137, as the agreement provides legal obligations and there are no other constructive obligations to consider.

<u>Accounting treatment</u>

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 asset in accordance with AASB 9.

Example 4B – Providing cash, not goods or services

In this example, the facts of Example 4 apply, except that all income generated from investing the principal must be applied towards one or more annual scholarships of $20,000 per student for the student to use at their discretion.

<u>Accounting treatment</u>

On receipt of the $2 million cash endowment (i.e. principal amount) from the alumnus, University A controls a financial asset within the scope of AASB 9. However, as all of the income generated from the principal amount must be applied towards funding cash scholarships, and there is no provision of service or a specific good, University A should consider Chapter 3 of AASB 9 on ‘Derecognition of Financial Assets’ to assess whether, and to what extent, derecognition is appropriate for the principal amount and whether, and to what extent, an associated financial liability would need to be recognised.

Example 4C – Contract Liability under AASB 15

In this example, the facts of Example 4 apply, except that University A is required to provide an annual scholarship of student accommodation for a defined period of 30 years.

Consistent with the rationale in Example 4A, University A determines:

- the $2 million endowment is an asset the university acquired for no consideration to further the objectives of the university. Accordingly, the endowment is within the scope of AASB 10XX and it controls a financial asset ($2 million) within the scope of AASB 9; and
- on gaining control of the endowment, University A determines it does not have related amounts in the form of contributions by owners, lease liability, financial liability or provision.

Based on the facts and circumstances outlined above, on gaining control of the endowment, University A recognises a contract liability in a contract with a customer for its obligation to transfer an annual scholarship for 30 years. This is because the university 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 promise to provide student accommodation is a sufficiently specific performance obligation related to the asset, as the obligation to provide student accommodation each year is distinct, and the university is able to identify that its obligation under the agreement will be satisfied by the end of 30 years (paragraph F21 of AASB 15).

Accounting treatment

University A recognises income immediately in profit or loss for any excess of the fair value of the cash transferred ($2 million) over the contract liability recognised and measured in accordance with paragraph 106 of AASB 15 on recognition of the asset in accordance with AASB 9.

Leases

IE5 Example 5 illustrates the requirements in AASB 10XX regarding the recognition of a lease liability in accordance with AASB 16.

Example 5—Lease with below-market minimum lease payments

Charity A (lessee) enters a 30 year lease with a local government (the lessor) for the use of a facility that is surplus to the local government's needs. The lease contract specifies lease payments of $100 per annum. At the inception of the lease, the entity assesses the terms and conditions of the lease, including restrictions, and determines the fair value of the right-of-use of the facility for 30 years is $360,000. The lease premises must be used to enable services to the homeless, or Charity A will no longer be able to use the facility.

There are no other conditions specified in the lease contract. Therefore, the lease does not give rise to a liability other than the obligation for the lease payments of $100 per annum.

Scope and asset recognition

Charity A determines:

- the $360,000 right-of-use asset is an asset the charity acquired for consideration significantly below fair value to further the objectives of the charity. Accordingly, the asset is within the scope of AASB 10XX; and
- it controls a leased asset ($360,000) within the scope of AASB 16.

On recognition of the right-of-use asset, Charity A determines the related amounts are not a:

- contribution by owners as the local government does not have an ownership interest in Charity A;
- contract with a customer in accordance with AASB 15 because the lease liability arises from a lease contract within the scope of AASB 16 and there are no other sufficiently specific performance obligations requiring transfers of goods or services to the local government or others associated with the lease contracts. Use of the facility to provide services to the homeless is not sufficiently specific enough to identify when the services have been provided. Accordingly, it is not within the scope of AASB 15;
- liability within the scope of AASB 137, as the agreement provides legal obligations and there are no other constructive obligations to consider; or
- financial instrument because lease contracts within the scope of AASB 16 are scoped out of AASB 9.

Accounting treatment

In accordance with AASB 16, Charity A determines on recognition of a right-of-use asset of $360,000, there is a lease liability of $1,537 being the present value of the future lease payments discounted at Charity A's incremental borrowing rate of 5% per annum as the interest rate implicit in the lease is not readily determinable. Charity A also recognises the difference of $358,463 between the fair value of leased asset and the lease liability as income at inception of the lease in accordance with paragraph 9 of AASB 10XX.

The journal entry on initial recognition is:

	Debit	Credit
Right of use asset	360 000	
Lease liability		1 537
Income		358 463

Contract with a customer – revenue and income

IE6 Examples 6-8 illustrate the requirements in AASB 10XX regarding recognition of revenue and a contract liability in accordance with AASB 15. To be in the scope of AASB 15, the contract must:

(a) be enforceable;

(b) contain performance obligations to transfers goods or services to another party sufficiently specific to enable determination of when the obligation has or has not been satisfied; and

(c) not result in the goods or services specified being retained by the entity.

Example 6— Enforceable, specific performance obligations and restrictions on timing of expenditure

Charity B receives a government grant of $2.4 million on 31 May 20X0, which is refundable if the money is not spent in the period 1 July 20X0 to 30 June 20X1.

Scope and asset recognition

Charity B determines:

- the $2.4 million grant is an asset the charity acquired to further the objectives of the charity; and
- it controls a financial asset ($2.4 million) within the scope of AASB 9.

The above fact pattern and analysis applies to examples 6A–6B described below. Each example is considered in isolation.

Example 6A: Enforceable, sufficiently specific performance obligation and restrictions on timing of expenditure

This example contains the following additional facts relating to Charity B:

- Charity B's charter states its purpose is to provide counselling to victims of violence and emergency accommodation to the homeless; and
- Charity B has an agreement with the grantor that specifies the grant must be spent providing crisis counselling services for a given number of hours per week for the entire year ending 30 June 20X1. Charity B expects to fulfil its promise to provide counselling services.

Based on the facts and circumstances outlined above, on gaining control of the grant of $2.4 million, Charity B determines the related amounts for the $2.4 million are not a:

- contribution by owners as the government does not have an ownership interest in Charity B;
- lease liability as defined in AASB 16, as the agreement Charity B enters into with the government with respect to the grant is not a lease, or does not contain a lease;
- financial liability within the scope of AASB 9 as there is no unconditional obligation to repay the grant and the conditions requiring repayment of the grant are under the control of Charity B; or
- provision within the scope of AASB 137, as the agreement provides legal obligations and there are no other constructive obligations to consider.

Charity B concludes its contract with the grantor is a contract with a customer as defined in AASB 15. This is on the basis that:

- the agreement is enforceable (refer to paragraphs F11–F19 of AASB 15), as the grantor can enforce its rights in the contract to require Charity B to return the funds if Charity B does not fulfil the specific performance obligations under the contract (i.e. by providing the counselling services for the specified number of hours per week for the entire year); and
- Charity B's obligation to transfer the specific service (identified counselling services for a specific number of hours per week in 20X0 to victims of violence) in return for the consideration from the grantor is sufficiently specific to determine when the obligation is satisfied, as it will be clear at the end of each week whether the specified hours of counselling have been provided (refer to paragraph F21 of AASB 15). The service is also provided to a third party and not consumed by Charity B.

Accounting treatment

In accordance with paragraph 10, the related amount for the $2.4 million is accounted for by Charity B in accordance with AASB 15 on recognition of the asset in accordance with AASB 9.

Example 6B: Enforceable, no specific performance obligation but restrictions on timing of expenditure

This example contains the additional fact that Charity B's agreement with the grantor specifies that the grant must be used in accordance with the charity's overall objectives. The agreement does not specify the services that grant must be used for.

Charity B analyses the terms of the grant agreement and notes

- the agreement is enforceable as the grantor can enforce its rights in the contract to require Charity B to return the cash of $2.4 million if Charity B does not spend the amount in the year ending 30 June 20X1;
- the required use of funds to further the entity's objectives is not sufficiently specific to know when goods or services have been transferred and the obligation satisfied; and
- the time restriction on use of the funds is not sufficiently specific of itself to create a performance obligation to transfer goods or services to the grantor or a third party so that it is known when the obligation is satisfied. When funds have been commingled with other funds, such as general purpose funds, used to fund administrative services as well as those related to the objectives of the entity, it is not possible to reliably determine what transfer of goods or services may have occurred using the specific funds.

Consequently, Charity B concludes that the transaction is not a contract with a customer as defined under AASB 15. Because the $2.4 million grant is an asset the charity acquired for no consideration to further its objectives, the grant is within the scope of AASB 10XX.

Accounting treatment

In accordance with paragraph 10, the related amount for the $2.4 million is accounted for by Charity B as income in accordance with paragraph 9 of AASB 10XX on 31 May 20X0 on recognition of the asset in accordance with AASB 9.

Additionally, on 31 May 20X0, Charity B does not have a liability under AASB 9 for the potential breach of contract, as it has the discretion not to spend the grant money before 1 July 20X0. If Charity B breaches the contract by spending the money before 1 July 20X0 or failing to spend the grant in full by 30 June 20X1, the breach is the obligating event giving rise to a liability (in this instance, a penalty). For this reason, Charity B recognises the grant of $2.4 million as income as at 31 May 20X0. If Charity B breached the contract, it recognises a liability and equivalent expense for the amount due for repayment when the breach occurs.

The journal entries for the accounting treatment are:

	Debit	Credit
31 May 20X0		
Cash	2,400,000	
Income		2,400,000

Example 7—Donations with management intent and for discretionary use

Charity C's publicly stated objective is to build water wells to provide clean drinking water in developing countries.

Charity C received 200 donations of $800 each. The donors indicated the donations are to be used for the purpose of building water wells.

The above fact pattern applies to examples 7A–7D described below. Each example is considered in isolation.

Example 7A: Pledges

In this example, the facts in Example 7 apply, except the 200 donations of $800 each are pledged by donors to Charity C in a telethon, no cash has yet been received by Charity C.

Charity C determines it does not control the future economic benefits associated with pledged amounts before receipt of the cash, as it does not have an enforceable right to require the donors to meet their pledge and accordingly, does not recognise an asset until the requirements of AASB 9 are satisfied.

Example 7B: Management intent, no legal or constructive obligations

In this example, the facts in Example 7 apply, except the Board of Charity C determined at a board meeting that funds raised from the public appeal from which the donated funds arose are to be used only for building water wells in Kenya. The Board has not publicly communicated this intention and its public statements are limited to those that appear in the fact pattern above.

Scope and asset recognition

Charity C determines:

- the $160,000 donation is an asset the charity acquired for no consideration to further the objectives of the charity. Accordingly, the donation is within the scope of AASB 10XX; and
- it controls a financial asset ($160,000) within the scope of AASB 9.

Based on the facts and circumstances, on gaining control of the donations, Charity C determines the related amounts are not a:

- contribution by owners as the donors do not have an ownership interest in Charity C, or if they are shareholders, the transfer was not made in their capacity as shareholders;
- lease liability as defined in AASB 16, as the agreement Charity C enters into with the donors with respect to the donations is not a lease, nor does it contains a lease;
- financial liability within the scope of AASB 9 as there is no obligation to provide cash or another financial asset to other parties; or
- provision within the scope of AASB 137, as the agreement provides legal obligations and there are no other constructive obligations to consider – there is no constructive obligation as past history indicates water wells have been built in a number of different developing countries and the possible obligation to build water wells is not sufficiently specific to know when those funds received have been spent on water wells, or if they have been spent on other purposes.

Charity C assesses whether it has any related revenue from a contract with a customer in accordance with AASB 15. Charity C determines its arrangement with donors is not an enforceable agreement in accordance with paragraph 10 of AASB 15 as there is no return obligation, and although management intends to spend the monies in a particular country, there is no public statement that would establish an enforceable contractual arrangement. The Board noting that the donation is to be spent on water wells is not sufficiently specific to enable enforcement of the contract, and there is no return obligation if not spent on water wells.

<u>Accounting treatment</u>

Accordingly, Charity C recognises the donations as income when it gains control of the donated cash in accordance with AASB 10XX.

Although not an enforceable performance obligation, Charity C determines the donations to be used for the purpose of building water wells to represent a restriction that is externally imposed on the donation. Consequently, Charity C elects to disclose the following information regarding the externally imposed restrictions on the donations by dividing total comprehensive income into restricted and unrestricted amounts in the statement of profit or loss and other comprehensive income in accordance with paragraph 37 of AASB 10XX.

Summary of Statement of Profit and Loss and Other Comprehensive Income of Charity C

Donation income – restricted	$160,000
Donation income – unrestricted	$230,000
Other revenue	$10,000
Total revenue	**$400,000**
Total expense	**$220,000**
Total comprehensive income	**$180,000**
Total comprehensive income – restricted	$160,000
Total comprehensive income – unrestricted	$20,000

Example 7C: Not enforceable and for discretionary use

In this example, the facts in Example 7 apply, except Charity C collected the donations as part of a campaign to raise funds for building water wells in Kenya. However, Charity C indicated that any funds not required would be spent on other purposes.

Subsequently, Charity C suspended the construction of the water wells due to a disease outbreak and redirected some of the donations received for the construction of the water wells to emergency food and medical supplies for the affected people in that country in response to the disease outbreak.

Consistent with Example 7B, Charity C determines it controls a financial asset within the scope of AASB 9 and it does not have a related contribution by owners, lease liability or financial liability as specified in another Australian Accounting Standard.

Consistent with Example 7B, Charity C assesses whether it has any related revenue from a contract with a customer in accordance with AASB 15. Charity C's promise to transfer goods or services related to the donation is not an enforceable arrangement with the donors. Charity B has discretion to direct the use of the donated money, provided the use is consistent with its overall objectives of the charity and the donors would not have recourse against Charity B for redirecting the donation. Consequently, Charity B does not have a contract with a customer as defined under AASB 15.

Accounting treatment

Accordingly, Charity B recognises the donations as income when it gains control of the donated cash in accordance with AASB 10XX.

Example 7D: Enforceable and sufficiently specific performance obligation

At the public launch of Charity B's appeal for donations, Charity B:

- reaffirmed its history of building water wells in Kenya which began 20 years earlier and throughout that period, the funds raised for building water wells had been used only for that purpose and in that country. This has been the established practice despite its disclaimer that donated money may be used for other aid activities in response to changing circumstances;
- publicly reinforced its commitment that the funds raised through this appeal are to be used only in respect of building wells in the identified country;
- pledged to return the donated funds if Charity B is unable or not required to spend the funds to build wells in Kenya. This is despite the disclaimer that Charity B can redirect the funds to other aid activities in response to changing circumstances; and
- publicly stated that each donation of $800 will construct 2 water wells.

Consistent with Examples 7B and 7C, Charity C determines it controls a financial asset within the scope of AASB 9 and it does not have a related contribution by owners, lease liability or financial liability as specified in another Australian Accounting Standard.

In contrast to Example 7B, Charity C determines that the donations arise under a contract with a customer as defined under AASB 15. This is because:

- the expectations raised through the commitment to refund unspent funds makes the agreement enforceable; and
- the public statements it has made and its long-standing practices, which create a valid expectation that funds will be spent on the task of building wells in the identified country, are sufficiently specific as Charity B has committed that each donation of $800 will construct two water wells.

Charity B recognises each donation as a contract liability until the specified 2 water wells have been built.

Example 8—Multi-year cash grant

The Local Government enters into the agreement with the State Government in the form of a Memorandum of Understanding (MOU)[1] to receive a multi-year cash grant of $90,000 from the State Government, which is wholly received on 1 July 20X1. The grant is to fund a specified education programme to increase the literacy of students in years 1-3 of a specific rural area over 3 years commencing 1 July 20X1.

The fact pattern and analysis applies to Examples 9A-9C described below. Each example is considered in isolation.

Example 8A: Enforceable, no sufficiently specific performance obligation

The example contains the following additional facts:

- the MOU does not specify the activities the grant must be used for, other than for an education program to increase literacy; and
- the State Government can enforce the repayment of the grant if the entity does not apply the funds to an education program.

Scope and asset recognition

The Local Government determines:

- the $90,000 grant is an asset the Local Government acquired to further the objectives of the Local Government; and
- it controls a financial asset ($90,000) within the scope of AASB 9.

1 Not all Memoranda of Understanding would necessarily be enforceable.

Based on the facts and circumstances, on gaining control of the grant, the Local Government determines the related amounts are not a:

- contribution by owners as the State Government does not control the Local Government;
- lease liability as defined in AASB 16, as the agreement Local Government enters into with the State Government with respect to the cash grant is not a lease, or contains a lease;
- financial liability within the scope of AASB 9 as there is no obligation to provide cash or another financial asset; or
- provision within the scope of AASB 137, as the agreement provides legal obligations and there are no other constructive obligations to consider.

The Local Government analyses the terms and conditions of the grant and notes:

- the agreement is enforceable as the grantor can enforce its rights in the contract to require the Local Government to return the funds if the Local Government does not undertake the specified activities; and
- the Local Government's obligation to transfer the specific service in return for the grant from the State Government is not sufficiently specific to determine when the obligation is satisfied.

Consequently, the Local Government concludes that the grant is not a contract with a customer as defined under AASB 15. Because the grant is an asset the charity acquired for consideration that is significantly less than the fair value of the grant principally to further its objectives, the grant is within the scope of AASB 10XX.

<u>Accounting treatment</u>

The Local Government recognises the related amount of the grant as income in accordance with paragraph 10 of AASB 10XX on 1 July 20X1.

	Debit	**Credit**
1 July 20X1		
Cash	90,000	
Income		90,000

Example 8B: Enforceable and sufficiently specific performance obligation

The example contains the following additional facts:

- the MOU outlines the agreed activities of the education program of student assessment and types of literacy programs that are tailored to needs of the students. The Local Government is required to provide to the State Government an annual report on the activities undertaken and the progress of the program. The Local Government is able to identify when its specific performance obligation is satisfied and expects to fulfil its promise in providing the agreed activities; and
- the State Government can enforce the repayment of the grant if the specified activities are not undertaken by requiring direct repayment or deducting unspent monies from future funding.

<u>Scope and asset recognition</u>

The Local Government determines:

- the $90,000 grant is an asset the Local Government acquired to further the objectives of the Local Government; and
- it controls a financial asset ($90,000) within the scope of AASB 9.

Based on the facts and circumstances, on gaining control of the donations, the Local Government determines the related amounts are not a:

- contribution by owners as the State Government does not control the Local Government;
- lease liability as defined in AASB 16, as the agreement Local Government enters into with the State Government with respect to the cash grant is not a lease, or contains a lease;
- financial liability within the scope of AASB 9 or AASB 132 as there is no obligation to provide cash; or
- liability within the scope of AASB 137, as the agreement provides legal obligations and there are no other constructive obligations to consider.

The Local Government analyses the terms and conditions of the grant and notes:

- the agreement is enforceable (refer to paragraph F11–F19 of AASB 15), as the grantor can enforce its rights in the contract to require the Local Government to return the funds if the Local Government does not fulfil the specific performance obligations under the agreement (i.e. by providing assessment and literacy programs tailored to needs of the students and annual report to provide to the State Government); and

- the Local Government's obligation to transfer the specific service in return for the consideration from the State Government is sufficiently specific to determine when the obligation is satisfied.

Consequently, the Local Government concludes that the grant is a contract with a customer as defined under AASB 15.

Accounting treatment

In accordance with AASB 15, the Local Government:

- recognises a contract liability for its obligation in the agreement;
- identifies each obligation relating to the annual cash grant; and
- recognises revenue as it satisfies its performance obligation.

The journal entries for the accounting treatment are:

Initial recognition	**Debit**	**Credit**
1 July 20X1		
Cash	90,000	
Contract liability		90,000
30 June 20X2		
Contract liability	30,000	
Revenue		30,000
Expense – literacy program	30,000	
Cash		30,000

Example 8C: Multi-year conditional grant

The example contains the following additional facts:

- the Local Government receives $30,000 in the first year; and
- in the following years, the grant is paid in two equal portions, with each payment conditional on the Local Government's adequate progress toward advancing literacy in the previous year.

In this case, the Local Government recognises a receivable for the first year's grant. However, the Local Government has no control over the cash flows that are conditional on its future performance. Accordingly, Local Government will only recognise those future cash flows once the Local Government becomes unconditionally entitled to them.

Transfers made to enable an entity to acquire or construct a non-financial asset for its own use (paragraphs 15–17)

IE7 Examples 9 and 10 illustrate the requirements in AASB 10XX regarding a transfer made to enable an entity to acquire or construct a non-financial asset for its own use, and when revenue is recognised.

Example 9—Cash grant for the construction of an asset – income recognised over time

On 1 July 20X1, a private sector not-for-profit school, School A, receives a cash grant of $2 million from a State Government to build an early learning centre (ELC) on the school's land to the standard specified by government department regulations applicable to early-learning (EL) programs for children.

The terms of the agreement requires School A to:

- construct the ELC that must include two rooms for the delivery of the EL programs;
- return all unspent, uncommitted funding after building the ELC; and
- reimburse the State Government the whole or portion of the grant amount (calculated on a pro-rata basis) if the ELC ceases to be used for the provision of EL programs before ten years after the date on which the funds have been fully paid.

School A's financial year ends 30 June.

At the end of the first year (30 June 20X2), a survey of work completed indicated that the construction of the ELC was 60 percent complete and $1.2 million of the funding was spent. The ELC was completed on 30 June 20X3 and the $2 million was fully spent.

Scope and asset recognition

School A determines:

- the $2 million grant is an asset the school acquired for consideration that is significantly less than the fair value of the grant to further the objectives of the school. Accordingly, the grant is within the scope of AASB 10XX; and
- it controls a financial asset ($2 million) within the scope of AASB 9.

School A determines its agreement with the State Government is a transfer of financial asset to enable it to construct a non-financial asset for its own use in accordance with paragraph 15 of AASB 10XX. That is, the financial asset (ie cash grant) is a transfer that:

- requires the school to acquire or construct a non-financial asset, the ELC, to the identified specification;
- does not involve a transfer of goods or services (ie the ELC) to the State government; and
- does require the school to refund the grant received to the State Government if the money is not used as specified in the agreement (ie non-construction of the ELC, unspent funds or ceases provision of the EL programs).

School A applies paragraph 16 and determines that it does not need to recognise a:

- contribution by owners as the grantor does not control or have an ownership interest in School A;
- contract with a customer within the scope of AASB 15. The grant to construct an asset for School A's own use does not promise a transfer of goods or services to the grantor or another party (see paragraph F28 of AASB 15);
- lease liability as defined in AASB 16, as the agreement School A enters into with the grantor does not provide a right-to-use a specified asset;
- financial liability within the scope of AASB 9 as there is no obligation to provide cash; or
- provision within the scope of AASB 137, as the agreement provides legal obligations and there are no other constructive obligations to consider.

Accounting treatment

In accordance with paragraph 16 of AASB 10XX, School A:

- recognises a liability for its obligation in the agreement;
- identifies each obligation relating the receipt of the cash grant and allocates the entire cash grant ($2 million) to those obligations – the work undertaken to construct the ELC; and
- recognises income as it satisfies its performance obligation.

The requirement to continue using the completed building as an early learning centre is not a sufficiently specific performance obligation to transfer goods or services that it could be determined whether the particular obligation has been satisfied. Accordingly the only obligation that can be recognised is for the construction of the building. In accordance with paragraph 16 of AASB 10XX revenue is recognised over time as the building is constructed.

The journal entries for the accounting treatment are:

Initial recognition	**Debit**	**Credit**
1 July 20X1		
Cash	2,000,000	
Obligation		2,000,000
30 June 20X2		
Obligation	1,200,000	
Income		1,200,000
Building – work in progress	1,200,000	
Cash		1,200,000

30 June 20X3		
Obligation	800,000	
Income		800,000
Building – work in progress	800,000	
Cash		800,000

Example 10—Cash grant for the construction of an asset – income recognised at a point in time

The State Government makes a cash grant of $100,000 to Hospital X to acquire 5 hospital beds for its own use.

Scope and asset recognition

Hospital X determines:

- the $100,000 grant is an asset Hospital X acquired for consideration that is significantly less than the fair value of the grant to further the objectives of the hospital. Accordingly, the grant is within the scope of AASB 10XX; and
- it controls a financial asset ($100,000) within the scope of AASB 9.

Hospital X determines its agreement with the State Government is a transfer of financial asset to enable it to acquire a non-financial asset in accordance with paragraph 15 of AASB 10XX. That is, the financial asset (ie cash grant) is a transfer that:

- requires Hospital X to acquire infrastructure asset (hospital beds) that conform to identified technical specifications;
- does not involve a transfer of goods or services (ie hospital beds) to the State Government; and
- does require Hospital X to refund the grant received to the State Government if the money is not used to acquire the infrastructure asset.

Hospital X applies paragraph 16 and determines that it does not need to recognise a:

- contribution by owners as the grantor does not control or have an ownership interest in Hospital X;
- contract with a customer within the scope of AASB 15. The grant to acquire the hospital beds for Hospital X's own use does not promise a transfer of goods or services to the grantor or another party (see paragraph F28 of AASB 15);
- lease liability as defined in AASB 16, as the agreement Hospital X enters into with the grantor does not provide a right-to-use a specified asset;
- financial liability within the scope of AASB 9 as there is no obligation to provide cash; or
- provision within the scope of AASB 137, as the agreement provides legal obligations and there are no other constructive obligations to consider.

Accounting treatment

In accordance with paragraph 16 of AASB 10XX, Hospital X recognises the grant initially as a liability at the point in time when it obtains control of the funds. Hospital X recognises income as it acquires and controls the hospital beds for its own use.

Volunteer services (paragraphs 18–22)

IE8 Example 11 illustrates the requirements in AASB 10XX in the recognition of volunteer services as an asset or expense.

Example 11—Volunteer services

A Local Government operates 35 preschools and employs 105 qualified educators to provide a quality education program for children. The program operates 5 days per week for 40 weeks a year. Preschools are subject to an externally imposed staff-to-children ratio. To satisfy the required ratio, staff lunch breaks are staggered across a 2 hour period with staff relieved by a qualified volunteer educator. The entity obtains the services of qualified volunteer educators for the 35 preschools to relieve employed staff for the 2 hour period each day of the program.

The Local Government assesses whether it meets the criteria in paragraphs 18 and 19 to require recognition of volunteer services as income:

- fair value of volunteer services received can be measured reliably by reference to the casual pay rates applicable to qualified educators. The Local Government estimates the fair value of the volunteer services as $30 per hour and measures the fair value of the volunteer services received for the financial year as $420,000. This is based on the calculation of $30 × 35 (relieving educators) × 2 (hours) × 5 (days) × 40 (weeks); and
- services would have been purchased if they had not been donated in order to meet the staff to children ratio.

Accounting treatment:

As the Local Government meets the criteria in paragraphs 18 and 19, it is required to recognise income and an equivalent expense of $420,000.

Example 12—Refund of prepaid local government rates

Local Council A calculates the rates it charges local residents on an annual basis approximately two months prior to the annual period to which the rates relate. Residents and other ratepayers are able to pay their rates in advance on a quarterly or annual basis. Rate payments received before the annual rateable period begins are fully refundable up to the beginning of the rateable period for which the payment is made. For example, if the Council receives a payment in May 20X6 for the rateable period from 1 July 20X6 to 30 June 20X7, the receipt is refundable in May and June 20X6.

During the refundable period, the rates received in advance meet the definition of a financial liability under AASB 132 and are within the scope of AASB 9. Following the taxable event on 1 July 20X6 the financial liability is extinguished.

Transition (paragraphs C2–C7)

IE9 Example 13 illustrates the modified retrospective application of this Standard for peppercorn leases.

Example 13—Peppercorn leases using modified retrospective application

School A, a not-for-profit school was built on land leased to it by Church B. Church B (the lessor) leases the land to School A (the lessee) for payment of $10 per year for 99 years (i.e. a peppercorn lease). On the date of transition to this Standard the present value of the remaining lease payments is $100.

School A has a reporting period ending 30 June and recognises a right-of-use of land under AASB 16. The fair value of the right-of-use of land is $2 million at 1 July 2019. Prior to applying AASB 10XX, School A had not previously recognised a right-of-use asset for land or a lease liability in its financial statements. There are no performance obligations attaching to the right-of-use of the land.

AASB 10XX (effective date 1 January 2019) applies to School A for the first reporting period 1 July 2019 to 30 June 2020. As there is a significantly below-market lease at inception of the lease, School A identifies that the transaction is within the scope of AASB 10XX and elects to apply the modified retrospective approach permitted on transition to AASB 10XX.

School A accounts for the peppercorn lease in accordance with the transition requirements of AASB 10XX by:

- recognising the right-of-use of the asset (ie land) as at 1 July 2019 at the fair value of $2 million;
- recognising the lease liability under AASB 16 of $100 (i.e. this accounting treatment is unaffected by AASB 10XX); and
- recognising the difference between the fair value of the right-of-use of the asset and the lease liability as an adjustment to the opening balance of School A's retained earnings as at 1 July 2019.

The journal entry for the accounting treatment is:

	Debit	Credit
1 July 2019		
Right-of-use asset – land	2,000,000	
Lease liability		100
Opening retained earnings		1,999,900

DRAFT FOR FATAL-FLAW REVIEW
COMMENTS DUE 21 OCTOBER 2016

AASB Standard

AASB 2016-X
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Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities

[AASB 9 & AASB 15]

Australian Government

Australian Accounting Standards Board

Obtaining a copy of this Accounting Standard

This Standard is available on the AASB website: www.aasb.gov.au.

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Contents

Australian Accounting Standard AASB 2016-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* is set out in paragraphs 1 – 10. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2016-X

This Standard makes amendments to AASB 9 *Financial Instruments* (December 2014) and AASB 15 *Revenue from Contracts with Customers* (June 2014).

The amendments arise from the issuance of AASB 10XX *Income of Not-for-Profit Entities*.

Main features of this Standard

Main requirements

This Standard inserts authoritative Australian implementation guidance for not-for-profit entities to AASB 9 and AASB 15. This guidance assists not-for-profit entities in applying those Standards to particular transactions and other events.

The amendments to AASB 9 provide guidance on the initial measurement and recognition of non-contractual receivables arising from statutory requirements. Such receivables include taxes, rates and fines.

The amendments to AASB 15 provide guidance in relation to:

(a) identifying a contract with a customer;

(b) identifying performance obligations; and

(c) allocating the transaction price to performance obligations.

Application date

This Standard applies to annual periods beginning on or after 1 January 2019. Earlier application is permitted provided AASB 10XX is also applied to the same period.

Accounting Standard AASB 2016-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2016-X *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* under section 334 of the *Corporations Act 2001*.

Kris Peach
Dated … [date] Chair – AASB

Accounting Standard AASB 2016-X
Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities

Objective

1 This Standard amends:

(a) AASB 9 *Financial Instruments*; and

(b) AASB 15 *Revenue from Contracts with Customers*;

to add authoritative implementation guidance for application by not-for-profit entities.

Application

2 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 9 and AASB 15 as set out in AASB 1057 *Application of Australian Accounting Standards* (as amended).

3 This Standard applies to annual periods beginning on or after 1 January 2019. This Standard may be applied to annual periods beginning before 1 January 2019, provided that AASB 10XX *Income of Not-for-Profit Entities* is also applied to the same period. When an entity applies this Standard to such an annual period, it shall disclose that fact.

Amendments to AASB 9

4 Paragraph Aus2.1.1 is added.

Aus2.1.1 Notwithstanding paragraph 2.1, in respect of not-for-profit entities, the initial recognition and measurement requirements of this Standard apply to non-contractual receivables arising from statutory requirements as if those receivables are financial instruments.

5 Appendix C *Australian implementation guidance for not-for-profit entities* is added as set out on page 7.

Amendments to AASB 15

6 Paragraphs Aus5.1, Aus7.1 and Aus9.1 are added.

Aus5.1 In addition to paragraph 5, in respect of not-for-profit entities, a transfer made to enable an entity to acquire or construct a non-financial asset for its own use as described in AASB 10XX *Income of Not-for-Profit Entities* is not within the scope of this Standard.

Aus7.1 For not-for-profit entities, a contract may also be partially within the scope of this Standard and partially within the scope of AASB 10XX.

Aus9.1 Notwithstanding paragraph 9, in respect of not-for-profit entities, if a contract that would otherwise be within the scope of AASB 15 does not meet the criteria in paragraph 9 as it is unenforceable or not sufficiently specific, the entity shall consider whether the requirements of

AASB 10XX apply to that contract on the basis that it is not a contract with a customer within the scope of AASB 15 (see paragraph F5).

7 In Appendix B, paragraph AusB34.1 is added.

AusB34.1 Notwithstanding paragraphs B34–B38, not-for-profit entities that are government departments shall apply the requirements of AASB 1050 *Administered Items* to administered items.

8 Appendix F *Australian implementation guidance for not-for-profit entities* is added as set out on pages 8–12.

9 *Australian illustrative examples for not-for-profit entities* is attached to accompany AASB 15 as set out on pages 13–15.

Commencement of the legislative instrument

10 For legal purposes, this legislative instrument commences on 31 December 2018.

Appendix C
Australian implementation guidance for not-for-profit entities

This appendix is an integral part of AASB 9 and has the same authority as other parts of the Standard. The appendix applies only to not-for-profit entities.

Introduction

C1 AASB 9 *Financial Instruments* incorporates International Financial Reporting Standard IFRS 9 *Financial Instruments*, issued by the International Accounting Standards Board. Consequently, the text of AASB 9 is generally expressed from the perspective of for-profit entities in the private sector. The AASB has prepared this appendix to explain the principles in the Standard in relation to non-contractual receivables arising from statutory requirements ('statutory receivables') from the perspective of not-for-profit entities in the private and public sectors. The appendix does not apply to for-profit entities or affect their application of AASB 9.

C2 This appendix provides guidance to assist not-for-profit entities to determine whether particular transactions or other events, or components thereof, are within the scope of this Standard. If a transaction is outside the scope of AASB 9, the recognition and measurement of the asset and income arising from the transaction may instead be specified by another Standard, such as AASB 10XX *Income of Not-for-Profit Entities*.

Non-contractual receivables arising from statutory requirements

C3 The scope of AASB 9 depends on the definition of a financial instrument, which is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Therefore, AASB 9 specifically addresses financial assets (and financial liabilities) that derive from contracts. Financial assets include contractual rights to receive cash or another financial asset from another entity.

C4 However, in a not-for-profit context, a receivable could be established by way of statutory requirements and not explicitly through a contract. The nature of such a receivable arising from statutory requirements is in substance similar to a contractual receivable, as the statutory requirements also provide an entity with a right to receive cash or another financial asset from another entity.

C5 Accordingly, an entity recognises and measures a statutory receivable as if it were a financial asset when statutory requirements establish a right for the entity to receive cash or another financial asset. Such a right would ordinarily arise on the occurrence of a past event, such as when a fine is issued. However, the point of time at which an entity is able to recognise other types of statutory receivables, such as taxes, may differ.

C6 A past event in relation to taxes occurs as specified for each tax levied in the relevant taxation law. Examples of taxable events include:

(a) income tax – the end of the taxation period in respect of which taxable income of a taxpayer is determined;

(b) goods and services tax – the purchase or sale of taxable goods and services during the taxation period;

(c) customs duty – the movement of dutiable goods or services across the customs boundary; and

(d) property tax – the passing of the date on which the tax is levied, or, if the tax is levied on a periodic basis, the period for which the tax is levied.

C7 In some instances, assets arising from taxable events cannot be measured reliably until after the taxing entity's financial statements are authorised for issue. This may occur, for example, if a tax base is volatile and reliable estimation is not possible. Consequently, in those cases, the assets would be recognised in a period subsequent to the occurrence of the taxable event, which in some cases might be several reporting periods after the taxable event.

C8 It is unlikely that taxes or fines will qualify as assets of the government agency or department responsible for their collection. This is because the government agency or department responsible for collecting taxes or fines does not normally control the future economic benefits embodied in tax collections.

Appendix F
Australian implementation guidance for not-for-profit entities

This appendix is an integral part of AASB 15 and has the same authority as other parts of the Standard. The appendix applies only to not-for-profit entities.

Introduction

F1 AASB 15 *Revenue from Contracts with Customers* incorporates International Financial Reporting Standard IFRS 15 *Revenue from Contracts with Customers*, issued by the International Accounting Standards Board. Consequently, the text of AASB 15 is generally expressed from the perspective of for-profit entities in the private sector. The AASB has prepared this appendix to explain and illustrate the principles in the Standard from the perspective of not-for-profit entities in the private and public sectors, particularly to address circumstances where a for-profit perspective does not readily translate to a not-for-profit perspective. The appendix does not apply to for-profit entities or affect their application of AASB 15.

F2 AASB 15 provides guidance on the following five elements of a contract with a customer:

(a) identifying a contract (paragraphs 9–21);

(b) identifying performance obligations (paragraphs 22–30);

(c) determining the transaction price (paragraphs 46–72);

(d) allocating the transaction price to performance obligations (paragraphs 73–90); and

(e) recognising revenue (paragraphs 31–45).

F3 This appendix should be read in conjunction with the requirements of this Standard.

F4 This appendix provides guidance to assist not-for-profit entities to determine whether particular transactions or other events, or components thereof, are within the scope of this Standard, in particular in relation to identifying a contract and identifying performance obligations. If a transaction is outside the scope of AASB 15, the recognition and measurement of income arising from the transaction may instead be specified by another Standard, for example AASB 10XX *Income of Not-for-Profit Entities*.

Identifying whether a contract with a customer exists

F5 A contract is an agreement between two or more parties that creates enforceable rights and obligations. If a not-for-profit entity's promise to transfer a good or service is made in an unenforceable arrangement with another party, a contract with a customer does not exist. If a not-for-profit entity's promise to transfer a good or service in an arrangement with another party fails the 'sufficiently specific' criterion discussed in paragraphs F19–F25, that entity shall not treat the promise as a performance obligation in a contract with a customer. Where a contract with a customer does not exist, the not-for-profit entity shall consider whether AASB 10XX is applicable.

Customer

F6 In contracts with customers, the 'customer' is the party that promises consideration in exchange for goods or services that are an output of the entity's ordinary activities. However, in contracts with customers in any sector, the customer might direct that goods or services are to be provided to third party beneficiaries (including individuals or the community at large) on the customer's behalf. In these contracts:

(a) the customer remains the party that has contracted with the entity for those goods or services and promises consideration in exchange for those goods or services; and

(b) the provision of goods or services to third party beneficiaries is a characteristic of the promised transfer of goods or services to the customer.

F7 For example, a not-for-profit entity in the private sector may receive consideration from a government for the specified purpose of providing first-aid training free of charge to members of the community. The government is the customer because it has contracted the entity to provide the first-aid training services.

This conclusion is not affected by the fact that the government specifies that those services are to be provided to members of the community.

Contract

F8 In relation to the definition of 'contract' in Appendix A, the reference to an 'agreement' in that definition shall be read by not-for-profit entities as encompassing an arrangement entered into under the direction of another party (for example, when assets are transferred to an entity with a directive that they be deployed to provide specified services).

F9 Paragraph 10 states that contracts can be written, oral or implied by an entity's customary business practices. The customary business practices of a not-for-profit entity refer to that entity's customary practice in performing or conducting its activities.

Enforceable agreement

F10 An inherent feature of a contract with a customer is that the entity makes promises in an agreement that creates enforceable rights and obligations. Paragraphs F11–F18 provide guidance for not-for-profit entities on when an agreement creates enforceable rights and obligations.

F11 An agreement is enforceable when a separate party is able to enforce it through legal or equivalent means. It is not necessary for each promise in the agreement to transfer goods or services to be enforceable by legal or equivalent means, as long as some enforceable obligations of the entity arise from the agreement. For an agreement to be enforceable by a separate party through 'equivalent means' the presence of a mechanism outside the legal system that establishes the right of a separate party to oblige the entity to act in a particular way or be subject to consequence is required.

F12 An agreement typically is enforceable by another party through legal or equivalent means if the agreement is in writing and includes sufficiently specific requirements of the parties. Oral agreements also may be enforceable. Enforceability needs to be considered in relation to both the particular terms of an agreement and any additional terms agreed by the parties as a result of further discussions or actions. Examples of terms that result in enforceable agreements include the following:

(a) a refund in cash or kind is required when the agreed specific performance has not occurred;

(b) the customer, or another party acting on its behalf, has a right to enforce specific performance or claim damages;

(c) the customer has the right to take a financial interest in assets purchased or constructed by the entity with resources provided under the agreement;

(d) the parties to the agreement are required to agree on alternative uses of the resources provided under the agreement; and

(e) an administrative process exists to enforce agreements between sovereign States or between a State and another party.

F13 A sufficiently specific, written agreement can be enforceable even if the particular terms do not include refund or other enforcement provisions, since Australian law generally provides remedies of specific performance or damages for breach of an agreement. Agreements that explicitly state they are not intended to be legally binding can be enforceable agreements if the intention of the parties to be bound by the document is indicated by other actions, such as one party acting in reliance on the document and communicating that action and reliance to the other party (for example, documents such as Memoranda of Understanding, Heads of Agreement and Letters of Intent). The enforceability of agreements does not depend on their form.

F14 In respect of not-for-profit entities, enforcement mechanisms may arise from administrative arrangements or statutory provisions. An example of such an enforcement mechanism is a directive given by a Minister or government department to a public sector entity controlled by the government to which the Minister or government department belongs. The ministerial authority to require a transfer of goods or services would be sufficient for an agreement to be enforceable by a separate party through legal or equivalent means.

F15 In relation to paragraph F11, a consequence for failing to transfer promised goods or services could be either a return of consideration or a penalty for non-performance that is sufficiently severe to compel the entity to fulfil its promise to transfer goods or services. In some circumstances, where rights to specific performance are unavailable or unnecessary, the authority to require compensation may be the key determinant of the enforceability of an agreement involving a promise to transfer goods or services. A capacity to impose a severe penalty for non-performance can exist without a capacity to require a return of transferred assets or assets of equivalent value.

F16 Identification of an agreement as being enforceable by another party through legal or equivalent means does not require a history of enforcement of similar agreements by the customer or even an intention of the customer to enforce its rights. A customer might choose not to enforce its rights against an entity. However, that decision is at the customer's discretion, and does not affect the enforceability of the customer's rights. Enforceability depends solely on the customer's capacity to enforce its rights.

F17 In contrast to the factors in paragraph F11, the following circumstances would not, of themselves, cause an agreement involving a promise to transfer goods or services to be enforceable by another party through legal or equivalent means:

(a) a transferor has the capacity to withhold future funding to which the entity is not presently entitled; and

(b) a not-for-profit entity publishes a statement of intent to spend money or consume assets in particular ways. The statement of intent is generally in the nature of a public policy statement, and does not identify parties who could enforce the statement. Such a statement of intent would, of itself, be insufficient to create an enforceable agreement, even if that statement is the subject of budget-to-actual reporting and of other oversight mechanisms to discharge accountability for the raising of funds, expenditure or consumption of assets. This is in contrast to a letter of intent which is typically an agreement between specifically identified parties. See also paragraph Aus26.1 of AASB 137.

F18 In relation to paragraph F17(a), a transferor's capacity to withhold future funding to which the entity is not presently entitled can be distinguished from circumstances in which a transferor presently holds refund rights, or has the capacity to impose a severe penalty, in the event of the transferee's non-performance, but might choose to obtain such a refund or impose such a penalty by deducting the amount of the refund or penalty from a future transfer to the entity. For example, a transferor's capacity to withhold future funding to which the transferee is not presently entitled would differ from circumstances in which a transferor could demand a refund of granted assets in the event of the transferee's non-performance, regardless of whether it makes any future transfers to the transferee, but chooses for convenience to deduct the refund amount from a future transfer. In this latter case, the transferor could enforce against the entity a promise to provide goods or services.

Commercial substance

F19 Paragraph 9(d) specifies that the Standard applies to a contract with a customer only if (among other criteria) the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract). A contract may have 'commercial substance', for the purposes of paragraph 9(d), even if it is entered into by a not-for-profit entity for purposes that, in everyday language, would be considered 'non-commercial' (for example, contracts to provide goods or services to members of the community on a subsidised or cost-recovery basis). This is because contracts to provide goods or services without generating a commercial return may nonetheless cause a change in the risk, timing or amount of the not-for-profit entity's future cash flows. Accordingly, for the purposes of application of the Standard by not-for-profit entities, 'commercial substance' shall be read as a reference to economic substance (ie giving rise to substantive rights and obligations).

Identifying whether a performance obligation exists

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

(a) the nature or type of the goods or services;

(b) the cost or value of the goods or services;

(c) the quantity of the goods or services; or

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

F21 In the not-for-profit context a service can include an arrangement whereby one entity undertakes specific activities on behalf of another entity. Activities may include service delivery, research or asset management, among others. While the customer might not be receiving the promised goods or services directly in all cases, the customer remains a beneficiary of those promised goods or services.

F22 Whether a promise is sufficiently specific so as to qualify as a performance obligation is assessed separately for each promise and will depend on the facts and circumstances. No specific number or combination of the conditions noted in paragraph F20 need to be specified in an agreement for the promise to be sufficiently specific. In addition, there may be other conditions which need to be taken into account in applying the judgement above which may indicate that the promise is sufficiently specific.

F23 Conditions specified regarding the promised goods or services may be explicit or implicit in an agreement. Paragraph 24 states that the performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in that contract. This is because a contract with a customer may also include promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer. A not-for-profit entity may make a statement of intent to spend a transfer in a particular way.

F24 In relation to paragraph F20(d), a condition that a not-for-profit entity must transfer unspecified goods or services within a particular period does not, of itself, meet the 'sufficiently specific' criterion. For example, a not-for-profit entity may provide a number of services under its charter such as counselling and housing to disadvantaged youth. Where it receives a transfer to be used for an unspecified purpose over a particular time period, such a promise would not meet the 'sufficiently specific' criterion.

F25 Some not-for-profit entities have a single purpose charter, such as to provide counselling services. Where such entities receive a transfer to be used over a particular time period for specified services, such a transfer could meet the 'sufficiently specific' criterion. Specifying the services to be provided under the arrangement and the stipulation to use the transferred funds over a particular time period enables a determination of when the services have been provided. However, if the transfer does not specify the period over which the entity must use the funds or the services to be provided (such as the number of counselling sessions), the entity would not meet the 'sufficiently specific' criterion because it would be unable to determine when it meets the performance obligations.

F26 An agreement may include a condition that the entity undertakes an acquittal process to demonstrate progress toward transferring goods or services. For example, the terms of an agreement may require the entity to report on progress toward specified outputs or outcomes in an acquittal process. Such an acquittal process may provide evidence of a promise to transfer goods or services that is sufficiently specific depending on the requirements of the acquittal process and other facts and circumstances. An acquittal process may also enable a determination of progress towards satisfaction of the performance obligation.

F27 Where a contract provides a transfer of cash for the entity to acquire or construct a non-financial asset (eg building) for the entity's own use, the contract does not establish rights and obligations for the transfer of goods or services to the transferor. In this case the transferor has made an in-substance transfer of the non-financial asset to the entity. Such contracts are accounted for in accordance with paragraphs 15–17 of AASB 10XX.

Allocating the transaction price to performance obligations

F28 A customer may enter into a contract with a not-for-profit entity with a dual purpose of obtaining goods or services and to provide a donation to help the not-for-profit entity achieve its objectives. An entity shall allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer. This is based on the rebuttable presumption that the donation element is not separately accounted for and the transaction price is treated as wholly related to the transfer of promised goods or services.

F29 The presumption is rebutted where:

(a) the transaction price is partially refundable in the event the entity does not deliver the promised goods or services; and

(b) the donation element that is not related to the transfer of promised goods or services is separately identifiable.

F30 Where the presumption is rebutted, the entity shall disaggregate the transaction price and account for the component that relates to the transfer of promised goods or services in accordance with this Standard. The remainder of the transaction price shall be accounted for in accordance with AASB 10XX.

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

(a) a non-refundable component of the transaction price; and

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

F32 For example, a not-for-profit heritage foundation sells on-line subscriptions that provide access for a year to particular heritage sites (a promised service to each customer) and invites subscribers to, in addition, donate a non-refundable nominated amount to generally assist the foundation in pursuing its mission. Such a donation, which is voluntary for a subscriber, is separately identifiable from the price of the annual subscription. However, if the annual subscription fee and the donation were both refundable if access were not provided for the entire subscription period, the presumption in paragraph F28 could not be rebutted as the transaction price is refundable in full. In that case, the donation amount would not be accounted for separately but would be included in the transaction price that is allocated to the performance obligation to provide membership access. Consequently, the donation amount would be recognised as revenue when (or as) performance obligations under the arrangement are satisfied in accordance with AASB 15. Similarly, if neither element were refundable, then no separation is required as the presumption is not rebutted.

Australian illustrative examples for not-for-profit entities

These illustrative examples accompany, but are not part of, AASB 15. They illustrate aspects of the Australian guidance for not-for-profit entities in AASB 15, but are not intended to provide interpretative guidance.

IE1 The following examples portray hypothetical situations. They are intended to illustrate how a not-for-profit entity might apply some of the requirements of AASB 15 *Revenue from Contracts with Customers* to particular types of transactions, on the basis of the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying AASB 15.

Identifying performance obligations and identifiable donation components (paragraphs F20–F27)

IE2 Examples 1-4 illustrate the requirements of AASB 15, for:

(a) identifying whether a transaction or agreement involves a performance obligation in a contract with a customer; and

(b) accounting for the transaction or agreement, including assessing whether the transaction includes an identifiable donation component.

IE3 For a performance obligation to exist, there must be an enforceable agreement with sufficiently specific conditions to enable an assessment of whether the performance has occurred. Further examples are provided in AASB 10XX for transactions or agreement where the performance obligation is not sufficiently specific.

Example 1—Enforceable agreement

Local Government A (the reporting entity) signed a Memorandum of Understanding (MOU) with a not-for-profit private sector entity. The MOU specifies that it is not legally binding on either of the parties and does not impose a refund obligation on the not-for-profit entity in the event it fails to perform under the terms of the agreement. Despite the statement that the MOU is not legally binding, the parties have indicated in their discussions their intention to rely upon it. The not-for-profit entity has commenced providing services under the MOU and has reported to Local Government A on its first two months' work.

Given the intention of the parties to rely upon the MOU, and the actions of the not-for-profit entity in reliance on the MOU, the MOU is enforceable despite the statement that it is not legally binding and the absence of a refund obligation.

Example 2—Sufficiently specific research activities, outputs and outcomes, acquittal process

University A receives a cash grant from Government B of $1.2 million for undertaking research that identifies and validates biomarkers to distinguish life-threatening cancers from non-life-threatening tumours.

The terms of the grant are:

- a period of three years, with specified milestone targets;
- the return of funds that are either unspent or not spent in accordance with the agreement;
- annual progress reports that detail the scientific progress, accomplishments and compliance with the terms of the grant;
- the research results are publicised in conference presentations and/or published in scholarly journals;
- the submission of a final report; and
- the ownership of the intellectual property (IP) rights arising from the research activity vests with the government.

The above fact pattern applies to Examples 2A-2B described below. Each example is considered in isolation.

Example 2A: Enforceable and sufficiently specific performance obligation

University A concludes its arrangement with the government is a contract with a customer as defined in AASB 15. This is on the basis that:

- the arrangement transfers research findings to the government in return for payment;
- University A's promise of specified research is enforceable as the grant is refundable if the research is not undertaken;
- University A identifies each promise to transfer goods or services to the government and assesses them separately to determine which promises, if any, are sufficiently specific to be performance obligations. Based on the wording in the grant agreement, the university determines that in this instance its promise to undertake research that identifies and validates biomarkers is distinct as a single performance obligation. This performance obligation is satisfied over time as benefits of the research, being knowledge, are created through undertaking research activities. Ownership of IP rights is important as it determines whether the transferor or another party owns the output of the research and may affect the accounting for the arrangement. In this case, the IP rights vest with Government B rather than University A;
- University A determines that the requirements for annual progress reports and a final report and public dissemination are an acquittal process and will enable it to measure its progress towards satisfaction of the performance obligation; and
- University A allocates the cash grant to its identified performance obligation.

<u>Accounting treatment</u>

In accordance with AASB 15, University A recognises a contract liability of $1.2 million on initial recognition and revenue over time as it satisfies the performance obligation with progress measured as University A meets its milestone targets.

Example 2B: Construction of a non-financial asset (the research)

In this example, the facts set out in example 2 applies, except that the ownership of the intellectual property rights (IP) arising from the research activity vests with University A.

As this is a transfer made to enable University A to "construct" a non-financial asset (the research) for its own use, the transaction is not a contract with a customer. Although the research is published for the use of others, the key economic benefits from the research are retained by the university and it has control of any asset arising from the research. As it is also a transaction where the consideration for the cash received is significantly less than fair value principally to enable the university to achieve its objectives, it is therefore accounted for in accordance with AASB 10XX.

Allocating the transaction price to performance obligations (paragraphs F28–F32)

Example 3— Performance obligation, transfer of goods without identifiable donation component

Entity A sells chocolates in a fundraising drive for a greater margin than a for-profit entity would typically generate by selling chocolates. In addition, buyers of the chocolates are often motivated by the not-for-profit entity's benevolent aims. The customer is entitled to a full refund of the purchase price if the chocolates were ordered and paid for in advance and either the delivered chocolates were spoiled or Entity A is unable to deliver the chocolates.

Entity A determines there is a contract with a customer accounted for under AASB 15, as there is:

- an enforceable contract due to the return obligation; and
- a sufficiently specific performance obligation requiring the transfer of the chocolates to the customer, which is satisfied at the point in time when delivered.

Entity A determines that the presumption in paragraph F28 cannot be rebutted because the transaction price is not partially refundable.

Accordingly, the entire consideration received, including the proceeds from the additional profit margin, forms part of the transaction price that is allocated to the performance obligation.

Example 4— Performance obligation, transfer of goods with identifiable donation element

Entity B holds an annual fundraising dinner in its local community. The ticket price is $600 per head, and is partially refundable if the dinner is cancelled, in which case the customer will receive a refund of $400, being the ticket price less the fair value of the dinner. Based on the menu, the retail price of the dinner charged by a local restaurant is $200 per ticket. Hosting the dinner also provides patrons (customers) with the benefit of socialising with a wide range of community members (including networking).

Entity B determines there is a contract with a customer accounted for under AASB 15, as there is:

- an enforceable contract due to the return obligation; and
- a sufficiently specific performance obligation requiring the provision of the dinner to the customer, which is satisfied at the point in time when provided.

Entity B determines that the presumption in paragraph F28 is rebutted as there is a partial refund in the event of non-performance, the amount to be refunded is specifically identifiable and it does not relate to a performance obligation.

In accordance with AASB 15, Entity B recognises:

- a contract liability of $200 for each ticket sold, which represents the fair value of the dinner to be provided, and would recognise that amount as revenue when the entity provides the dinner; and
- income of $400 – the residual of $400 is a result of a transaction where the consideration paid is significantly less than the fair value of the asset principally to enable Entity B to further its objectives and therefore AASB 10XX applies, with immediate recognition of income.