



8 November 2019

Ms Kris Peach
 Chair
 Australian Accounting Standards Board
 PO Box 204
 Collins St West Victoria 8007
 AUSTRALIA

Dear Ms Peach

Issue in Question 6 of AASB Staff FAQs: AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 16 Leases

The Australasian Council of Auditors-General (ACAG) is writing to bring to your attention an issue that we have noted in Question 6 of the recently updated AASB Staff FAQs (version prepared as at 9 October 2019). The views expressed in this submission represent those of all Australian members of ACAG.

In the FAQ Scenario 1B, in the context of a research grant payable to University C in accordance with a payment schedule that reflects agreed research milestones, it states that:

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

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

In relation to the emphasis added for the second bullet point, ACAG is unclear of the meaning of, and the intention for including “all of the research milestones are within the control of the University”.

ACAG is of the view that the University should only recognise a receivable for the right to receive future cash flows for the milestone(s) that has/have been met as the University would not have an unconditional enforceable right to receive cash if there are future conditions (milestones) to be met, whether within its control or not.

ACAG’s view is consistent with:

(a) the guidance in paragraph 108 of AASB 15 (“A receivable is an entity’s right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.”)

(b) Illustrative Example 8C of AASB 1058 which concludes that “the Local Government has no control over the cash flows that are conditional on its future performance. Accordingly, the Local Government will only recognise those future cash flows once the Local Government becomes unconditionally entitled to them.”

(c) the guidance currently in paragraph 29 of AASB 1004 (“... For example, the transferee government or government department does not gain control of assets under a multi-year public policy grant agreement until it has met conditions such as grant eligibility criteria or provided the services or facilities that make it eligible to receive a contribution.”)

In relation to the emphasis added for the third bullet point, ACAG agrees that if there are no agreed milestones, the University has an unconditional enforceable right to receive all the future cash flows upon signing the contract. In other words, there are no conditions that are required to be met to receive the payments. As such, there is no need for the words “outside the control of the university” to be included as it places limitations on “there are no agreed milestones”.

ACAG requests the AASB staff clarify the meaning of and intention behind the second bullet point “all of the research milestones are within the control of the University”?

If the AASB staff agree with ACAG’s views outlined above, we suggest the AASB staff update FAQ Scenario 1B for ACAG’s suggestions.

Yours sincerely



Rod Whitehead
Chairman
ACAG Financial Reporting and Accounting Committee