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Australian Accounting Standards Board

Media Release

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More deferral of income in the not-for-profit sector? AASB issues new Exposure Draft ED 260 *Income of Not-for-Profit Entities*

The AASB's new proposals for income recognition in the not-for-profit sector may result in better matching of income and expenditure than the current standard AASB 1004 *Contributions*.

In releasing the proposals, the AASB Chair, Kris Peach, said:

> "The most significant change to practice proposed by the ED is to defer income from grants and donations where the conditions attached regarding delivery of goods or services are enforceable and sufficiently specific, regardless of whether the ultimate beneficiary is the grantor or a third party. The current standard has been interpreted as requiring income to be recognised immediately if the ultimate beneficiary is not the grantor. For example, under the proposals a charity receiving grants requiring the provision of a certain number of hospital beds would not recognise revenue until the beds were provided, despite the ultimate beneficiary being the patient, rather than the grantor. This change uses the principles of AASB 15 *Revenue from Contracts with Customers* and addresses concerns that, in some circumstances, AASB 1004 requires premature recognition of income."

However, some types of transfers to not-for-profit entities would continue to be recognised as income immediately—for example:

(a) donations to a charity with discretion regarding which charitable purposes the donations will be used for; and

(b) grants, or local government rates, specified to be used in a particular future period but without any specification of the nature of the goods or services for which they must be used.

The proposals will also require that transactions with a donation element be recognised at fair value. For example a grant of a peppercorn lease of land for 99 years for a $1 would require the finance lease asset to be recognised at fair value, with corresponding income (unless there are performance conditions attached).

The proposals provide guidance on how current grant/donation agreements would need to be amended regarding performance obligation conditions to enable better matching of income with expenditure. An entity would need to consider its own specific circumstances and service performance objectives before determining whether such amendments would be beneficial.

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Comments on ED 260 are requested to the AASB by 14 August 2015.

The AASB will conduct an extensive outreach programme on ED 260, including education sessions and roundtables in Brisbane, Canberra, Melbourne and Sydney in June. More details, including how to register for the events will be available on the AASB website shortly.

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