



INCOME OF NOT-FOR-PROFIT ENTITIES: AASB 15 AND AASB 1058

AASB staff, 2 March 2022

Disclaimer: This presentation provides personal views of the presenter and does not necessarily represent the views of the AASB or other AASB staff. Its contents are for general information only and do not constitute advice. The AASB expressly disclaims all liability for any loss or damages arising from reliance upon any information in this presentation. This presentation is not to be reproduced, distributed or referred to in a public document without the express prior approval of AASB staff.



PURPOSE

- Overview of short-term narrow-scope project
- Some matters addressed in the Exposure Draft 318
- Additional educational material to support consistent application on some matters raised
- Other matters will be considered as part of the Post-Implementation Review (PIR) on AASB 15 NFP Guidance and AASB 1058

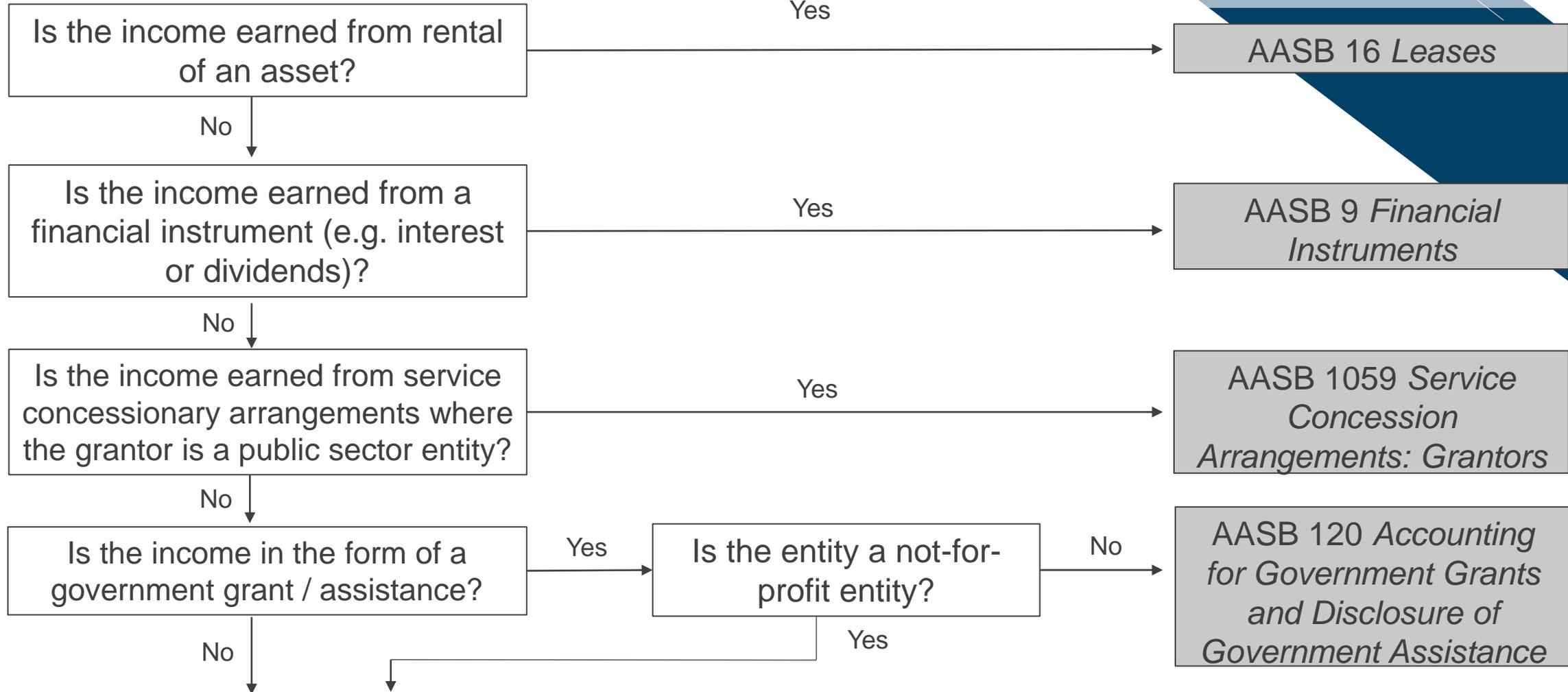


Topics

- Scope and principles of the standards
- Documentation to be considered
- Sufficiently specific and enforceable criterion
- Capital grants
- Upfront payments
- Grants received in arrears
- Principal v agency
- Termination for convenience
- ED 318 – AASB 1058 Example 3A
- ED 318 - Peppercorn / concessionary leases
- Post-implementation review



RELEVANT ACCOUNTING STANDARDS – SCOPE ILLUSTRATION

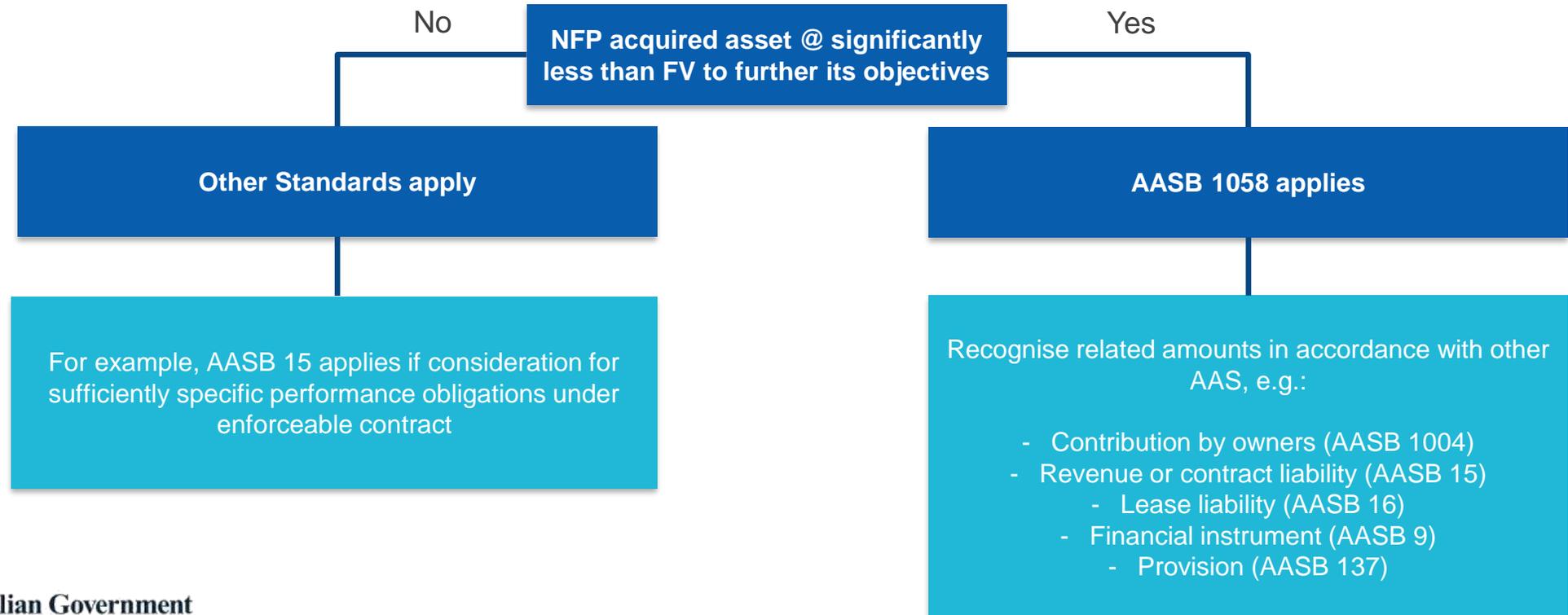


Refer to decision tree in [FAQ 5](#)

This flowchart is included in the FAQs to assist NFP entities in determining the relevant accounting standard(s) for their income streams **illustrating some of the considerations** to be taken in the account – remainder of the webinar will discuss AASB 15 and AASB 1058.

PRINCIPLES OF AASB 15 AND AASB 1058

- Interaction between AASB 15 (and other standards) and AASB 1058 (AASB 1058, Appendix B, Chart 1):



PRINCIPLES OF AASB 15 AND AASB 1058

- The standard used will impact the timing and amount of income
- Stakeholder feedback has indicated that determining the relevant standard has been one of the most challenging implementation issues
 - Certain criteria to be satisfied for income to be within the scope of AASB 15 (refer next slide)
 - AASB 1058 is a residual standard
- Principles explored in more detail in the AASB [Key Facts](#) document



PRINCIPLES OF AASB 15: CRITERIA



Examples of enforceability:

- Refund clause
- Ability to enforce specific performances or claim damages
- Right to take an interest in assets (AASB 15.F12)

The funding should oblige the entity to transfer goods or services to a customer (including provision of goods or services to third-party beneficiaries). (AASB 15.F5-F8)
Funding for internal / administrative purposes will not result in a performance obligation. (AASB 15.25)

The promised goods / services need to be sufficiently specific to enable the NFP to determine when the obligation is satisfied.

This requires judgement, which takes into account any conditions specified in the agreement regarding the promised goods or services, including their following aspects (AASB 15.F20):

- Nature or type
- Cost or value
- Quantity
- Period of supply / service.



HIGH LEVEL OVERVIEW OF INCOME RECOGNITION PRINCIPLES UNDER AASB 15 AND AASB 1058

AASB 15

Identify performance obligations / promises to transfer goods/service to external party (customer)

Recognise revenue as and when the control of goods/services is passed to the customer.
Either point in time or over time recognition.

AASB 1058

Contract is either not enforceable or does not contain sufficiently specific performance obligations

Recognise income when the entity is entitled to a related asset (e.g. cash).
Amount of income is the asset value less any associated liability (recognised in accordance with accounting standards).
Point in time recognition (capital grant exception).



DOCUMENTATION

OFFICIAL

Issue raised: what documentation should be considered in formulating income recognition methodology (i.e. do entities look only at the clauses within the contract)?

Consider the guidance in the standard and associated documents around a contract providing evidence of agreed upon terms:

Contract: An agreement between two or more parties that creates enforceable rights and obligations. (AASB 15: Appendix A)

- Contracts can be written, oral or implied by customary business practices
- The practices and processes for establishing contracts with customers vary and shall be considered in determining whether and when an agreement with a customer creates enforceable rights and obligations
(AASB 15.10)

- An 'agreement' encompassing an arrangement entered into under the direction of another party
(AASB 15.F8)

- The structure and scope of a contract can vary depending on how the parties to the contract decide to record their agreement
(AASB 15.BC68)

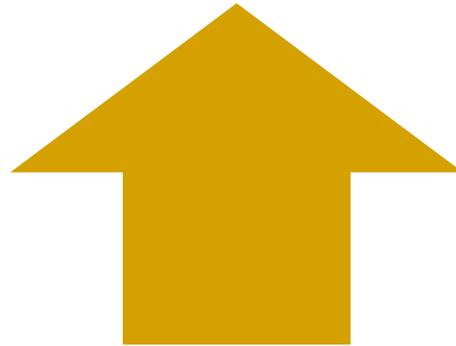
- Agreed-upon terms can be written, oral or evidenced otherwise (for example, by electronic assent)
(AASB 15.BC32)

OFFICIAL

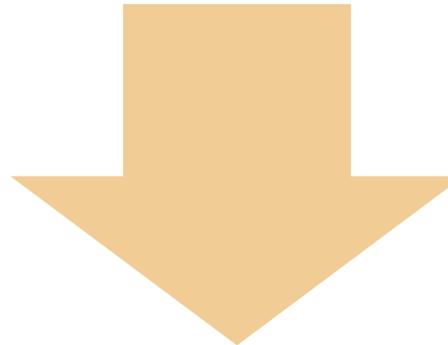
SUFFICIENTLY SPECIFIC PERFORMANCE OBLIGATIONS

Issue raised: How specific does sufficiently specific need to be?

- Contract (or part of) needs to include sufficiently specific performance obligations (along with enforceability) to be within the scope of AASB 15
- Principle of sufficiently specific relates to the level of discretion which a recipient has over how the received funds are spent – judgement call



High level of discretion, e.g. receiving entity can choose how to spend the funds with few constraints => **less chance that the contract contains sufficiently specific performance obligations**



Low level of discretion, e.g. contract contains explicit requirements on the goods / services required to be transferred to the customer => **contract is more likely to contain sufficiently specific performance obligations**

SUFFICIENTLY SPECIFIC PERFORMANCE OBLIGATIONS (CONTINUED)

- Does the agreement specify the goods / services to be provided in return for funds given or can the entity choose which activities to perform under broad constraints? Relevant guidance is AASB 15.F20 – F27
- Judgement around specificity - consider explicit or implicit conditions specified in the agreement regarding the promised goods or services, including:

**Nature or
type**

Cost or value

Quantity

**Period of
time**



ENFORCEABILITY

Issue raised: is a refund clause sufficient to demonstrate enforceability?

Relevant paragraphs – AASB 15.F10-F15

- An agreement is typically enforceable by another party through legal or equivalent means and the agreements can be written or oral
- Enforceability is considered in relation to both the particular terms of an agreement and any additional terms agreed to by the parties as a result of further discussions or actions

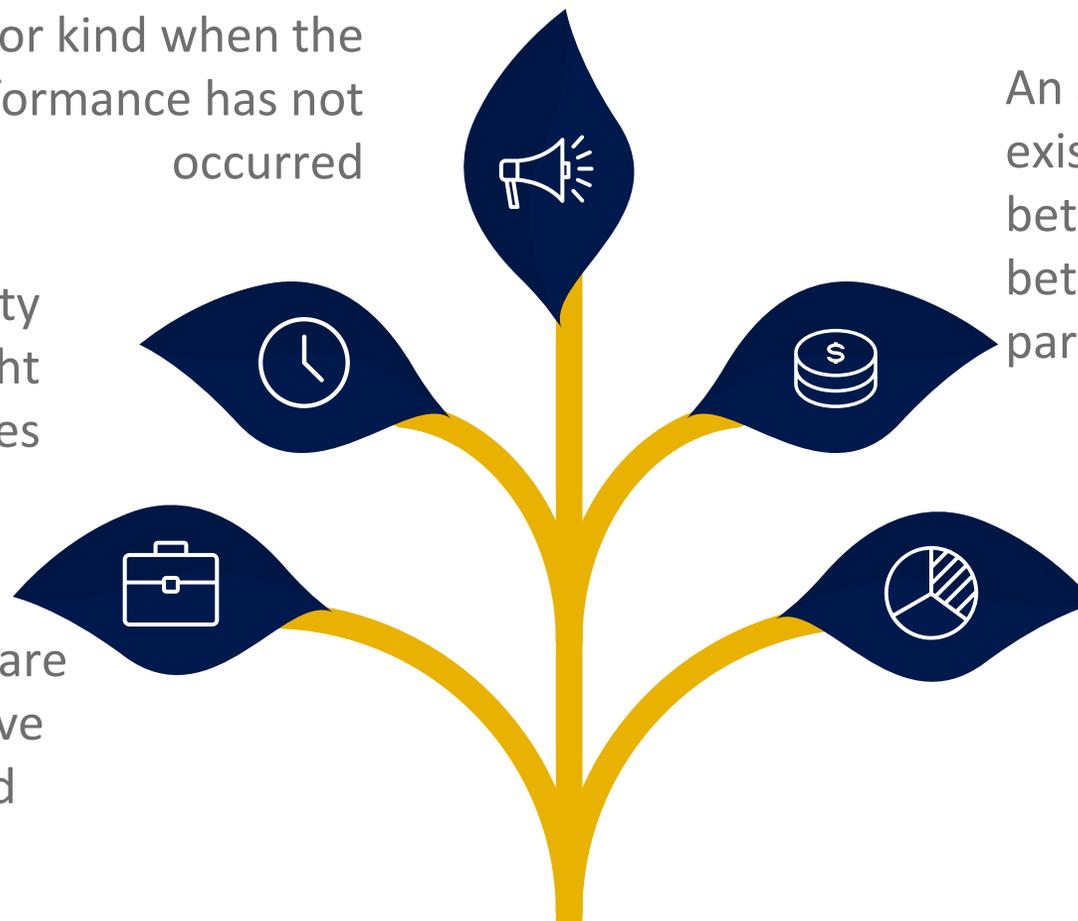
EXAMPLES OF ENFORCEABILITY

AASB 15.F12 – examples of terms that result in enforceable agreements include:

A refund in cash or kind when the agreed performance has not occurred

The customer, or another party acting on its behalf, has a right to enforce damages

The parties to the agreement are required to agree on alternative uses of the resources provided under the agreement



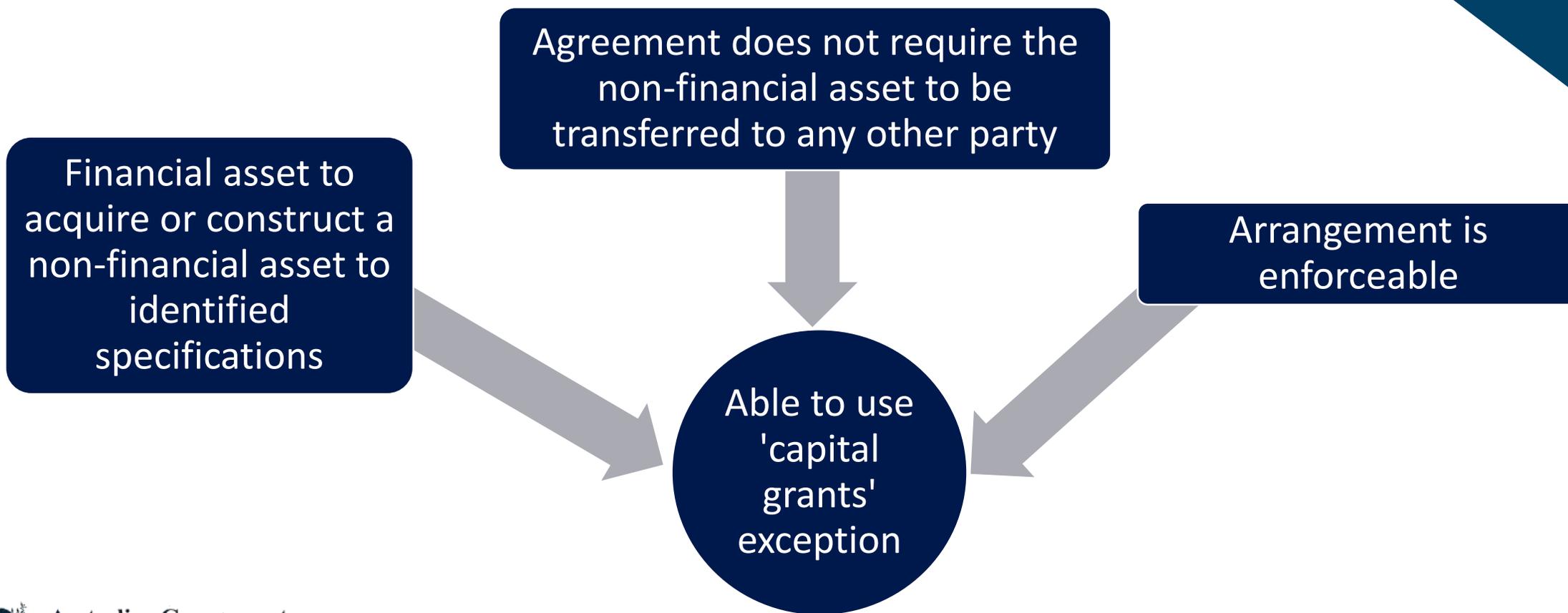
An administrative process exists to enforce agreements between Sovereign States or between a State or another party

The customer has the right to take a financial interest in assets purchased or constructed by the entity

CAPITAL GRANTS

Issues raised:

1. How specific do the 'identified specifications' in AASB 1058.15 need to be?
2. How should income be recognised for contracts which fall into the assets controlled by the entity exception in AASB 1058.15-17?



AASB 1058: EXAMPLE 9 (SUMMARY)

- On 1 July 20X1 Entity receives \$2m cash grant to build a 2 room early learning centre (ELC) on the entity's land to the standard specified by the government regulations.
- Any unspent funding should be returned once the building is complete.
- The funder is reimbursed on a pro-rata basis if the ELC ceases to be used within 10 years.

- At the end of 30 June 20X2, the construction was 60% complete and \$1.2m of the funds had been spent.
- The ELC was completed on 30 June 20X3 and the \$2m was fully spent.

Analysis – the agreement meets the criteria in paragraphs 15 – 17 and therefore can recognise income when (or as) the entity satisfies its obligations under the transfer.

AASB 1058: EXAMPLE 9 (CONTINUED)

Accounting treatment:

At 1 July 20X1

Dr: Cash	\$2m	
Cr: Obligation		\$2m

At 30 June 20X2 as the work progresses

Dr: Obligation	\$1.2m	
Cr: Income		\$1.2m

Dr: Capital WIP	\$1.2m	
Cr: Cash		\$1.2m

- ✓ At 30 June 20X2, the recognised income is \$1.2m based on the stage of completion.
- ✓ At 30 June 20X3, the total cumulative recognised income is \$2m and the capital WIP is transferred to building asset since it is complete.



AASB 1058: EXAMPLE 10 (SUMMARY) ^{OFFICIAL}

- Entity receives \$100,000 to purchase 16 intensive care hospital beds to be used by the entity. The purchase will be made in two stages (6 beds followed by 10 beds).

Analysis – the entity determines that they meet the criteria in paragraph 15 and therefore recognises income as the obligation is completed (i.e. when the beds are purchased).

Accounting treatment:

Initial recognition

Dr: Cash	\$100k	
Cr: Obligation		\$100k

Purchase 1

Dr: Obligation	\$37.5k	
Cr: Income		\$37.5k

Dr: Equipment	\$37.5k	
Cr: Cash		\$37.5k

Purchase 2

Dr: Obligation	\$62.5k	
Cr: Income		\$62.5k

Dr: Equipment	\$62.5k	
Cr: Cash		\$62.5k



UPFRONT FEES

Issue raised: How do we account for income from upfront fees in a contract?

A not-for-profit entity charges upfront fees to customers or members as part of the goods and services offered. These fees may include:

- joining fees at clubs and membership bodies;
- enrolment fees at schools; and
- other establishment or set-up fees where the fee is paid at or near contract inception and the customer can renew the contract each year without paying an additional fee.

Accounting standard guidance: AASB 15.B48-51

[AASB Staff FAQ for Not-for-Profit Entities](#) – Section 3 *Identifying and Recognising Performance Obligations in NFP Schools*

UPFRONT FEES – PROPOSED EXAMPLE

The following is a summary of the example proposed in the AASB Exposure Draft ED [318](#)

Scenario:

Entity charges an upfront fee when a prospective customer accepts the offer to join or enrol.

The following terms and conditions are relevant to the fee:

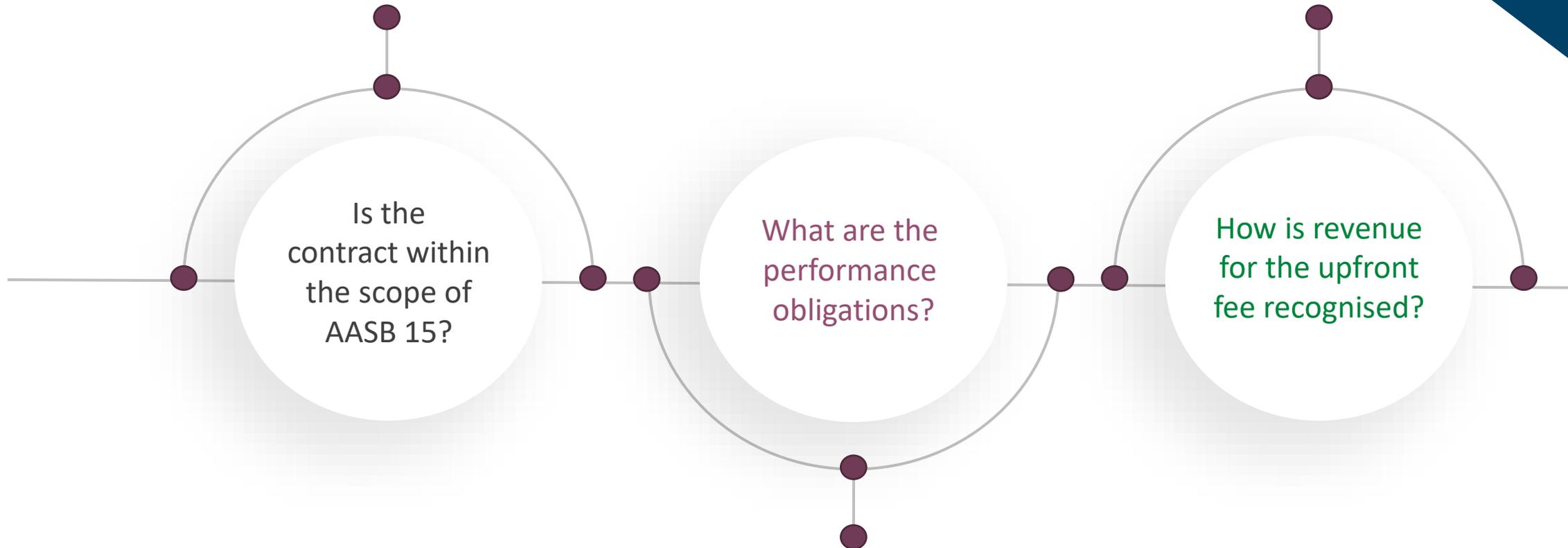
- upon payment of the fee, future service is guaranteed for the prospective client to commence in the agreed-upon year and for the period of the contract, being 2 years;
- the fee is non-refundable and non-transferable; and
- the fee is not offset against any future fees that are charged for an ongoing basis for continued access to the services.

UPFRONT FEES – PROPOSED EXAMPLE (CONTINUED)

(AASB 15.9-21 and F5-19)

- Customer
- Agreement
- Enforceable rights and obligations

Where the goods or services to which the upfront fee relates are in the scope of AASB 15, the recognition of the upfront fee as revenue depends on whether the payment of the fee relates to a transfer of distinct goods or services to the customer that meets the definition of a performance obligation.



Are the activities associated with the non-refundable upfront fee one of these performance obligations?
(AASB 15.22-30, B48-51 and F20-27)



GRANTS RECEIVED IN ARREARS

Issue raised: Where a grant is in the scope of AASB 1058, how should an entity account for grants received in arrears?

No specific guidance in AASB 1058, however consider the income recognition methodology



Where the goods / services have been provided prior to payment received, an entity should consider whether there is an asset to be recognised and follow the general process in AASB 1058.

[AASB Staff FAQ for Not-for-Profit Entities](#) – Section 5 *Initial recognition by a NFP entity of an asset acquired for consideration that is significantly less than fair value principally to enable the entity to further its objectives, and the associated income*



PRINCIPAL V AGENCY

Issues raised: Lack of understanding regarding circumstances where NFP entities need to consider the principal / agency concept;

Examples of circumstances where principal / agency should be considered:

- some National Disability Insurance Schemes arrangements, the NFP entity receives all the funding relating to the care to be provided to a participant, however they partly act in a fund management role to distribute the funds to the relevant provider and retain funds only for the administration and disability services which they provide;
- consortium grants arrangements where the lead entity is responsible for distribution of funds;
- National body receives funds solely for the purpose of transferring funds to state bodies.

Consider the role played in the arrangement and the associated revenue recognition (gross v net).

TERMINATION FOR CONVENIENCE CLAUSES

Issue raised: Whether the existence of termination for convenience (TFC) clauses in grant agreements would result in a liability being recognised for funds received not yet spent

Stakeholders noted there was current diversity in practice.

Issue is applicable to both NFP and FP entities and has arisen due to the interaction of standards such as AASB 15 / AASB 1058 and AASB 9 - will be considered in the NFP context in the Post Implementation Review for contracts outside the scope of AASB 15.

Where a grant agreement includes a TFC clause and the agreement is in the scope of AASB 1058 then entities will need to consider applicable AAS (e.g. AASB 9) when recognising related amounts.

ED 318 – AASB 1058 EXAMPLE 3A

Illustrative example 3A in AASB 1058

Illustrative Example 3A amendment proposal in ED [318](#) to clarify the analysis and accounting treatment as follows:

- providing further details how the accounting standards have been applied to support the recognition of a financial liability under the illustrated set of circumstances and clarification of the measurement of such liability; and
- providing a contrasting example where no financial liability is recognised.

Comments on the ED open until **11 March 2022** – please **provide feedback**

Phone:

+61 (3) 9617 7600

1300 857 602

Email:

standard@aab.gov.au



ED 318 – PEPPERCORN / CONCESSIONARY LEASES

ED 318 proposing to provide a ‘permanent’ exemption for private sector NFP entities to measure Right of Use (ROU) assets arising from concessionary leases at cost.

Cost is based on the lease liability under the agreement.

Disclosure required to provide information on the nature of the concessionary leases and the reliance of the entity on these leases.

Comments on the ED open until **11 March 2022** – please **provide feedback**

Phone:

+61 (3) 9617 7600
1300 857 602

Email:

standard@asb.gov.au

POST-IMPLEMENTATION REVIEW (PIR):

WE NEED YOUR INPUT

- PIR is an opportunity to debrief new standards
 - What is working?
 - What is not working so well?
- Process – how do we do this
 - Research literature review
 - Stakeholder engagement - the more the merrier
 - Roundtables, discussions, emails, webinars, formal responses
 - Does not have to be a significant time commitment
- Based on the feedback received the Board will determine the next steps (may include changes to the requirements of the standards, additional examples, educational material)
- **Would you be willing to assist the AASB with the post-implementation process of AASB 15 and AASB 1058 for NFP entities?**

The personal information you provide here will be used by the AASB to contact you regarding the post-implementation process of AASB 15 and AASB 1058 for NFP Entities. We will not disclose personal information about you to anybody else, unless you have given consent, or we are authorised or required to do so by law. Our Privacy Policy describes when this might occur. Providing us with the requested information is not required by law. If you choose not to provide us with no further action will occur. Please see the AASB Privacy Policy on our website www.aasb.gov.au for more information about how we handle your personal information, how you can request to access or correct the personal information we hold about you, and who to contact if you have a privacy enquiry or complaint.



AASB Resources



- Staff papers and research reports
- Hot Topics – guidance and reference material on the latest developments in standard setting
- YouTube channel – view AASB webinars & other recordings



Getting Involved

Pronouncements

- ✓ identify Standards or Interpretations applicable to a reporting period

News & Alerts

- ✓ news alerts & media releases
- ✓ weekly newsletter (subscribe [here](#))

Outreach Events

- ✓ forums, roundtables, webcasts
- ✓ international guests & key experts

Work Program & Project Summaries

- ✓ the latest developments on AASB projects

Work in Progress

- ✓ see Exposure Drafts & AASB submissions



OFFICIAL

Q&A



OFFICIAL

Sign up for our newsletter!



Thank You.



Carmen Ridley

Fridrich Housa



0438 029 867

+61 3 9617 7618



cridley@asb.gov.au

fhousa@asb.gov.au



www.aasb.gov.au

www.aasb.gov.au



Nikole Gyles



+61 3 9617 7600



ngyles@asb.gov.au



www.aasb.gov.au



Disclaimer This presentation provides personal views of the presenter and does not necessarily represent the views of the AASB or other AASB staff. Its contents are for general information only and do not constitute advice. The AASB expressly disclaims all liability for any loss or damages arising from reliance upon any information in this presentation. This presentation is not to be reproduced, distributed or referred to in a public document without the express prior approval of AASB staff.

