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| Project: | Not-for-Profit Private Sector Financial Reporting Framework | Meeting: | AASB October 2025 (M215) |
| Topic: | Redeliberation – Revenue | Agenda Item: | 6.2 |
| | | Date: | 16 September 2025 |
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| | | Decision-Making: | High |
| | | Project Status: | Project redeliberations |

Objective of this paper

- 1 The objective of this staff paper is for the Board to **decide** how to finalise the proposed requirements exposed in ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* regarding Section 20: *Revenue* of that ED.

Structure of this paper

- 2 This paper is structured as follows:
 - (a) Summary of staff recommendations (paragraph 3); and
 - (b) Background and reasons for bringing this paper to the Board (paragraphs 4 – 6);
 - (c) Summary of proposals in Section 20: *Revenue* (paragraphs 7 – 10);
 - (d) Staff analysis of stakeholders’ feedback on the following SMCs:
 - (i) SMC 2(c) and SMC 28 for Section 20 (paragraphs 11 – 16 and Table 2); and
 - (ii) SMC 29 for Section 20 (paragraphs 17 – 18);
 - (e) Staff recommendations for SMC 28 and 29 (paragraph 19); and
 - (f) Appendix A: *Summary of aspects of IPSAS 47 Revenue*.

Summary of staff recommendations

- 3 Staff recommend the Board finalises the Tier 3 requirements for revenue as exposed in ED 335 Section 20, subject to any redrafting necessary to improve clarity of the requirements, except for the following amendments:
 - (a) including brief guidance that internal expectations communicated by an entity’s management regarding the use of a received asset are, on their own, insufficient to give rise to a deferred revenue obligation if those expectations are formed after the asset has been received;

- (b) clarifying in Illustrative Examples E, F and H that the 'common understanding' referred to in the examples exists regardless of whether the reporting entity has an enforceable obligation to provide the promised goods/services;
- (c) adding an illustrative example of a charity that seeks donations for a specific appeal but also indicates that if greater funds are raised than needed for the intended purpose, the excess funds will be redirected to an alternative charitable purpose if the common understanding is established between the provider and the entity;
- (d) clarifying in the scope paragraph that sales of assets are revenue when they arise in the course of the entity's ordinary activities;
- (e) in para. 20.5, replacing the reference to fair value as the initial measurement requirement for debtors with a reference to 'transaction price'; and
- (f) adding clarification noting that if pledges have been made to the entity and are probable to result in an inflow of economic benefits, the disclosure requirements in para. 19.15 of ED 335 for contingent assets would apply to the pledges.

Background and reasons for bringing this paper to the Board

- 4 The Board decided at its 1 May 2025 meeting to proceed with developing a Tier 3 Accounting Standard with simplified recognition, measurement, and disclosure requirements for smaller not-for-profit (NFP) private sector entities, and commence redeliberations of the proposals in ED 335.¹
- 5 At the May 2025 board meeting, the Board considered the summarised feedback on ED 335 and a proposed categorisation of the extent of the Board's re-deliberation efforts. This paper provides the staff analysis of stakeholder feedback received on Section 20: *Revenue*. The Category B topics are proposals where stakeholders provided mixed feedback or expressed substantive concerns on one or more particular aspects of the proposals.²
- 6 The primary objective of this paper is for the Board to, in respect of the topic covered, decide whether to make any substantive changes to the proposals exposed in ED 335. Staff have not included any revised drafting in this paper. Consistent with the approach taken to the redeliberated topics to date, staff plan to present the revised drafting collectively in November 2025, as per the project timeline outlined in Agenda Paper 6.0. This approach will allow the Board to first consider all decisions on matters of principle, ensuring a comprehensive view of the overall draft Standard.

Summary of proposals in Section 20: *Revenue*

- 7 The Board proposed that Tier 3 NFP entities should not be required to apply the Tier 2 approach to recognising revenue (and other income) because, as noted in para. 5.180 of the Tier 3 DP:
 - (a) it is challenging for Tier 3 NFP entities to apply two different Standards (AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*); and
 - (b) the immediate recognition of many transfers as income under AASB 1058 is potentially confusing to users of financial statements of Tier 3 NFP entities when those entities consider they have obligations to spend or use the transferred assets in future periods or the transfers relate to future periods.

1 Per [minutes](#) of the 1 May 2025 AASB meeting

2 Refer [Agenda Paper 4.2](#) of the 1 May 2025 AASB meeting for the categorisation of topics as Category A and Category B.

- 8 Instead, the Board proposed – under Section 20 of ED 335 – a single income recognition model, under which a Tier 3 NFP entity defers recording income from inflows of resources if, and only if, there is a common understanding between the entity and the provider of the asset. This common understanding must be that, in response to receiving the asset, the entity will perform in a particular manner resulting in the expenditure, transfer or using up of that asset or other assets of the entity with a similar value. Examples of an unsatisfied commonly understood expected use of resources transferred to the entity are using those resources to transfer goods or services to customers or beneficiaries, and an expectation to use the resources over a specified period.
- 9 Section 20 also proposed that a Tier 3 NFP entity should be subject to the following recognition option and disclosure requirement in relation to volunteer services received by it:
 - (a) consistent with Tier 2 requirements: permitting, but not requiring, recognition of volunteer services received (or a class thereof) as income if the fair value of those services can be measured reliably; and
 - (b) a requirement to disclose sufficient information about volunteer services to enable an understanding how these services impact the entity's operations. This includes information about the entity's dependence on volunteer services to meet its objectives and any known information about impending significant changes to the nature and amount of volunteer services. This would not require quantifying the value of volunteer services received.
- 10 Section 20 of ED 335 excluded any explicit reference to variable consideration in the initial measurement requirements for accounts receivable, and any explicit requirement to account for any implicit financing to a customer. These exclusions from draft Section 20 were proposed on the grounds that these circumstances are unlikely to be common, and the inclusion of such requirements is unlikely to be proportionate for Tier 3 entities.

Staff analysis of stakeholders' feedback, and staff recommendations, on Specific Matters for Comment 2(c), 28 and 29

Overview of stakeholder feedback received

- 11 Specific Matter for Comment 2(c) (SMC 2(c)) asked whether stakeholders agree with the Tier 3 revenue recognition model with the ability to defer recognition of revenue if there is a common understanding that is evidenced between the provider and the entity on how the cash or other assets received should be used.
- 12 Specific Matter for Comment 28 (SMC 28) asked whether stakeholders agree with the proposed Tier 3 recognition, measurement and disclosure requirements (including the basis for disaggregating revenue) in Section 20 of ED 335.
- 13 Specific Matter for Comment 29 (SMC 29) asked whether stakeholders agree with the proposed exclusion of the following revenue-related guidance from the Tier 3 requirements in Section 20 of ED 335:
 - (a) any reference to variable consideration from the initial measurement requirements for accounts receivable in Section 20; and
 - (b) any requirements addressing how to account for a significant financing period provided to a customer, when measuring the amounts of accounts receivable arising from a transfer of goods or service to a customer or beneficiary in paragraph 20.3.
- 14 As reported in Agenda Paper [4.3](#) considered at the May 2025 Board meeting, 26 stakeholders (12 survey respondents and 14 written submitters) responded to SMC 2(c). Of those that commented, only one stakeholder commented specifically about the Tier 3 revenue

recognition model, where they disagreed with deferring revenue based on a 'common understanding' when there is no obligation. Their comments are further analysed in Table 2 (first row).

- 15 Of the 18 comment letters that responded directly to ED 335 and the total number of participants who attended a virtual/in-person outreach session, 9 and 19 respondents, respectively, provided a response to SMC 28. The following table provides an overview of the responses received on SMC 28.

Table 1 SMC 28 responses

| | Agree | Agree with exception | Disagree | Unsure |
|--|--------------|-----------------------------|-----------------|---------------|
| Out of 9 comment letters that commented on SMC 28 | 4 (44%) | 4 (44%) | 1 (12%) | - |
| Out of 19 participants who attended a virtual/in-person outreach session and commented on SMC 28 | 14 (74%) | - | 1 (5%) | 4 (21%) |

- 16 The staff analysis of stakeholder feedback on SMC 28 is discussed in Table 2. The overview and staff analysis of stakeholder feedback on SMC 29 is discussed in paragraphs 17 – 18 including Table 3.

Detailed outline of concerns expressed in stakeholders' feedback on SMC 28 and staff analysis

Table 2 SMC 28: Stakeholder comments and staff analysis and recommendations

| Stakeholder comments | Staff analysis |
|--|---|
| <i>Stakeholders who did not support the proposals entirely</i> | |
| <p>A few stakeholders preferred aspects of the Tier 1/Tier 2 requirements in AASB 15 and AASB 1058. They expressed concerns about:</p> <p>(a) whether liabilities could exist without enforceability of the commonly understood undertaking³, and can lead to high degree of judgement and interpretation (see para. 20.9 of the ED);</p> | <p><u><i>(a) Whether liabilities could exist without enforceability of the commonly understood undertaking</i></u></p> <p>Staff acknowledge that requiring an enforceable obligation to exist for deferral of revenue as a liability, such as the binding agreement principle in IPSAS 47 <i>Revenue</i> (a brief summary of relevant aspects of IPSAS 47 is set out in Appendix A to this paper), would be consistent with the concept of a liability in the Conceptual Framework. However, the Board rejected developing an alternative approach based on whether the resource provider imposed documented explicit stipulations on the expenditure or use of those transferred resources⁴ as the Board considered it might be challenging to understand for Tier 3 entities that lack detailed financial knowledge and might not result in deferral of recording income even though the Tier 3 entity is expected to spend or use the resources in the future (refer to para. BC 105(b) of ED 335). [Further stakeholder comment on whether further wording from IPSAS 47 could be incorporated into the Tier 3 Standard is analysed in row 2, page 8 of this paper]</p> <p>Staff also consider it would likely be clearer to apply than the 'common understanding' criterion in ED 335 as omitting an enforceability criterion may result in difficulty for users to distinguish a liability from a general obligation. When developing the ED, the Board also noted concerns expressed by ACAG and HoTARAC (in their comments on ITC 50: the Post-Implementation Review (PIR) of AASB 1058) that an approach to deferral of revenue based on a 'common understanding' may be highly subjective and open to a high degree of judgement and interpretation (see Agenda Paper 4.13 for the Board's March 2024 meeting).</p> <p>However, staff note that in developing the predecessor Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)(DP) on which the ED proposal was based, the Board decided that limiting deferral of revenue recognition to when an enforceable obligation</p> |

3 Expressed by some auditors at external meeting/virtual outreach and in a written submission by an individual stakeholder classified as 'other'.

4 When developing the proposal in the ED, the Board considered one of the possible Tier 3 revenue model could be based on (i.e. an enforceable activities/expenditure model which would be developed based on combination of modify the requirements for the recognition of other income set out in AASB 1058 along the lines proposed in IPSASB ED 71 *Revenue without Performance Obligations* (February 2020)) by also identifying liabilities (and therefore deferring income recognition). Refer to Agenda Paper [11.4](#) at the 23-24 February 2022 Board meeting and subsequently Agenda Papers [5.1.1](#) and [5.1.2](#) at the 18 February 2022 Board meeting.

| Stakeholder comments | Staff analysis |
|---|---|
| <p>(b) whether there might be tax consequences for the donor (e.g. an ancillary fund) if the recipient (e.g. a charity) defers revenue recognition⁸. They expressed concerns about any possible tax implications when an ancillary fund provides an asset to a charity applying the Tier 3 reporting</p> | <p>exists would be too narrow a principle for deferral, leading to outcomes less closely aligned with users' understanding of when revenue has been earned.⁵ The Board based its decision on the following reasons:</p> <ul style="list-style-type: none"> • The NZASB's PIR of recognition of revenue from donations and grants under its former Tier 3 Standard received feedback that the Standard's 'use or return'⁶ condition was considered inappropriately restrictive by a third of respondents.⁷ This was because donors frequently lack the capacity to compel the return of donated resources not used in accordance with the donor's stipulations, but the donations create a moral obligation for the recipient. As a result, the Board decided to develop its Tier 3 revenue recognition requirements based on the revised NZ Tier 3 Standard. • It requires revenue to be recognised in the manner that most faithfully represents the amount and pattern of using up the assets received, matching revenue with expenses or time. • While the NZ Tier 3 Standard requires that the documented expectations necessary for deferral of revenue must be "specific enough to allow the reporting entity to reliably demonstrate to the resource provider when the expectation has been satisfied (regardless of whether the resource provider monitors the use of the funding provided or not)" (para. A75(b)), the Board decided not to propose equivalent Tier 3 requirements because doing so would be akin to reinstating the 'sufficiently specific' condition for revenue deferral in AASB 15 (as stated in the Tier 3 DP (para. 5.186(c))). <p><u>(b) Whether there might be tax consequences for the donor (e.g. an ancillary fund) if the recipient (e.g. a charity) defers revenue recognition</u></p> <p>Staff received advice from the Australian Taxation Office on 4 February 2025 that the proposed change from the Tier 2 requirements in AASB 15 and AASB 1058 would not have tax consequences for donors donating to ancillary funds. Ancillary funds receive donations and are required to distribute either 4% or 5% annually of their net assets to a particular category of deductible gift recipients ('eligible charities'), with the distribution requirement met when assets are transferred to eligible charities. Tax deductions are generally claimed by donors to ancillary funds when they make those donations, and the timing of those tax deductions is</p> |

5 Refer to Agenda Paper [5.2.1](#) for the Board's May 2022 meeting.

6 Under a 'use or return' condition, the entity must be required to either consume the resources received in a particular way or return the resources received. The 'use or return' condition was a means of establishing enforceability of obligations to use or consume resources in a specified manner, albeit that enforceability of obligations could also arise through other mechanisms.

7 This was noted in Agenda Paper 5.1.1 for the Board's May 2022 meeting.

8 Expressed mainly by auditors providing feedback at an external meeting.

| Stakeholder comments | Staff analysis |
|--|---|
| <p>requirements, and that recipient charity defers revenue recognition in relation to assets transferred to it. In contrast, under the Tier 2 requirements revenue would have been recognised immediately if a ‘sufficiently specific’ enforceable obligation does not exist;</p> <p>(c) possible education/transition costs to learn the new requirements, which might affect staff retention⁹; and</p> <p>(d) some preparers have transitioned to, and are already familiar with, the existing Tier 2 requirements¹⁰.</p> <p><u>Alternative approaches suggested by some of these stakeholders</u></p> <p>Some of these stakeholders suggested either to align with Tier 1/Tier 2 requirements or investigate whether the IPSASB’s revenue recognition model, using the binding agreement principle, would be better than the proposals in ED 335.</p> | <p>unaffected by either the timing of downstream distributions to eligible charities or the financial reporting practices of the eligible charities receiving such distributions. Therefore, staff consider that changing the timing of revenue recognition under the Tier 3 Standard compared with previous practice under Tier 2 reporting requirements would unlikely result in tax consequences for donors to those ancillary funds.</p> <p><i><u>(c) and (d) Possible education/transition costs to learn the new requirements, which might affect staff retention</u></i></p> <p>Staff do not consider that learning the new Tier 3 requirements would negatively impact staff retention given the Tier 3 requirements are expected to be simpler to learn. If particular entities are currently applying Tier 2 revenue recognition requirements and find the differences in the Tier 3 requirements too demanding to learn and apply, they have the option to not transition to the Tier 3 Standard and instead apply Tier 2 reporting requirements in their entirety.</p> <p>In developing ED 335, the Board noted the need to apply judgement is sometimes necessary and the related risk of subjective assessments of whether a ‘common understanding’ exists. Nevertheless, the Board concluded that these concerns were outweighed by the advantages of basing deferral of revenue on whether a ‘common understanding’ exists. This was consistent with the NFP PAP members indicating that smaller NFP private sector entities would benefit from the proposed Tier 3 revenue recognition model, noting that NFP private sector entities encounter difficulties in differentiating revenue under AASB 15 from income under AASB 1058. Therefore, staff expect that the benefits of adopting the proposed Tier 3 revenue recognition requirements should outweigh the costs of transitioning to those requirements.</p> <p>Given most stakeholders agreed with the Board’s proposals in Section 20 of ED 335, nothing new has been raised by stakeholders that would cause the Board not to finalise its proposals as exposed, staff recommend the Board confirms its proposal in Section 20 of ED 335 that the deferral of revenue under the ‘common understanding’ principle does not require an enforceable obligation of the reporting entity to exist.</p> |

9 Expressed mainly by auditors providing feedback at an external meeting.

10 Expressed mainly by auditors providing feedback at an external meeting.

| Stakeholder comments | Staff analysis |
|---|---|
| Concerns/clarification needed relating to application of the proposed ‘common understanding’ criterion for deferring revenue | |
| <p>Some stakeholders generally agreed with the proposals in Section 20 of ED 335 but expressed the following concerns that Section 20 might need further clarification or examples regarding identifying a ‘common understanding’:</p> <p>(a) Consideration should be given to including guidance of IPSAS 47 <i>Revenue</i> to support the identification of when a ‘common understanding’ exists¹¹;</p> <p>(b) The proposed principle of a ‘common understanding’ versus funds that are provided for general operations, and the potential for confusion regarding</p> | <p><u>(a) Incorporation of IPSAS 47 guidance to support the identification of when a ‘common understanding’ exists</u></p> <p>Regarding the potential usefulness of IPSAS 47 to complement the guidance on a ‘common understanding’ in ED 335, staff observe that the guidance in IPSAS 47 on liability recognition and subsequent revenue recognition focuses on mechanisms for enforcing ‘compliance obligations’ under enforceable arrangements, and on identifying distinct goods and services (which is a ‘unit of account’ issue).</p> <p>The Board’s proposals in Section 20 of ED 335 included that an enforceable obligation should not be necessary for the deferral of revenue if a ‘common understanding’ (as described in para. 20.3 and 20.9 of ED 335) exists; the staff recommendation in the row directly above is that the Board reaffirms that proposal. Therefore, including IPSAS 47 guidance on mechanisms for enforcing ‘compliance obligations’ under enforceable arrangements would be unlikely to complement the proposals in Section 20 of ED 335. Various instances of a ‘common understanding’ would involve enforceable obligations to providers of assets. However, staff’s understanding from outreach activities on ED 335 is that stakeholders considered uncertainties in identifying whether a ‘common understanding’ exists would be encountered mostly in respect of unenforceable obligations.</p> <p>In developing the ED, the Board also noted that an advantage of its proposals (which was adopted in the Tier 3 DP and ED 335) is that it simplifies the current approach by not requiring identification of whether a promise to transfer goods or services is distinct. Consequently, the guidance in IPSAS 47 on identifying distinct goods and services would not be helpful to smaller NFP entities applying Section 20 of ED 335.</p> <p>For the above reasons, staff recommend not incorporating requirements or guidance of IPSAS 47 in the Tier 3 Standard to support the identification of when a ‘common understanding’ exists.</p> <p><u>(b) whether the ‘common understanding’ criterion is another version of the ‘sufficiently specific’ criterion in AASB 15</u></p> <p>When developing its ED 335 proposals, the Board had considered that Tier 3 entities are not required to assess whether the ‘common understanding’ are ‘sufficiently specific’.¹³ While the Tier 3 revenue recognition</p> |

11 Expressed by a few stakeholders at external meeting/virtual outreach and in a written submission by an individual stakeholder classified as ‘other’.

13 Refer to Agenda Paper 5.1.2 at the 18 May 2022 Board meeting.

| Stakeholder comments | Staff analysis |
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| <p>the extent of detail/specifics of the common understanding needed to meet deferral requirements, could result in similar issues as those arising from the ‘sufficiently specific’ criteria in AASB 15. The stakeholder raising this concern suggested adding either further examples to provide further clarity or guidance to address some scenarios that are the subject of confusion (e.g. an asset given for general spending to support the entity’s overall mission versus an asset given to support a more specific project)¹²;</p> <p>(c) It is unclear whether internal expectations and decisions about the use of the funds communicated to the</p> | <p>model was developed based on the New Zealand Tier 3 Standard,¹⁴ the Board did not include the notion that the common understanding needing to be ‘specific enough’ which may be considered as similar or even equivalent to the ‘sufficiently specific’ criterion. Staff consider that whichever criterion is specified for when to defer revenue recognition, the need to apply judgement will be unavoidable. To provide an analogy, even if the Tier 3 Standard adopted the arguably most flexible deferred income requirement considered by the Board – namely, the requirement in para. 12 of AASB 120 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> to recognise grant income concurrently with recognising as expenses the related costs the grants are intended to compensate – it would still be necessary in some cases to apply judgement to identify the related costs.</p> <p>The stakeholder that expressed the concern in (b) stated that it might be unclear whether a common understanding exists if an asset was given for general spending to support an entity’s overall mission versus one given to support a more specific project. In this regard, staff note that para. 20.7(a) – (d) of ED 335 refer to ‘specified’ goods/services, activities, expenditures and periods. Paragraph 20.12 states that: “An expectation to use assets received to support the general operating costs of the entity over an unspecified period of time is not identified as giving rise to deferred revenue.” However, an expectation to use assets received to support the general operating costs of the entity <u>over a specified period</u> would give rise to deferred revenue. Thus, the scenarios mentioned by the stakeholder would give rise to deferred revenue if either the outputs or period were specified. If it is unclear that a common understanding exists that the entity will perform in a particular manner resulting in the expenditure, transfer or using up of either the asset received or other assets, revenue should not be deferred.</p> <p>For the above reasons, staff consider that the requirement is sufficiently clear. Therefore, staff recommend not to add further examples.</p> <p><u>(c) whether internal expectations and decisions about the use of the funds communicated to the grantor after receipt are sufficient to establish a common understanding</u></p> |

12 Expressed in a written submission by a professional services firm.

14 The NZ Tier 3 Standard includes an additional criterion that, to qualify for deferral of revenue, “the expectation is specific enough to allow the reporting entity to reliably demonstrate to the resource provider when the expectation has been satisfied (regardless of whether the resource provider monitors the use of the funding provided or not)” (paragraph A75(b)).

| Stakeholder comments | Staff analysis |
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| <p>grantor after receipt are sufficient to establish a common understanding¹⁵; and</p> | <p>Illustrative Example G in ED 335, regarding a general purpose grant internally designated for particular activities, illustrates a fact pattern that clearly does not give rise to a ‘common understanding’ and therefore the arrangement does not create a deferred revenue obligation. Some stakeholders considered that in a slightly different fact pattern, i.e. where internal decisions about the use of the funds are communicated to the grantor after receipt of the grant, a ‘common understanding’ might arise because the Board decided not to require enforceable obligations for deferred revenue recognition. However, such a common understanding might not arise from such subsequent communication; for example, the asset provider might consider that the reporting entity should have the flexibility to change the asset’s deployment as it sees fit in response to changing circumstances without specifying any other requirements (such as the period over which the asset must be used). Similarly, only the asset provider’s reply to the communicated internal expectations and decisions would give rise to evidence of a common understanding.</p> <p>For these reasons, staff agree that the proposals as drafted are unclear regarding whether an entity’s internal expectations and decisions about the asset’s use to the asset’s provider after receipt could warrant deferral of income. Staff consider that communication from an entity to the asset provider should, of itself, be insufficient to give rise to a deferred revenue obligation if it occurs after receipt of an asset. This is because the provider may not have agreed to the entity’s expectations and decisions, thereby lacking the ‘common understanding’ between the provider and the entity.</p> <p>If communication of management intentions from a reporting entity to the asset provider occurred before the asset was provided to that entity, and was a factor in the asset provider’s decision to provide that asset, it would be sufficient for a deferred revenue obligation to arise as the common understanding has been established. However, such a step would simply be one of the ways in which written communication between the entity and the provider of an asset might create such a common understanding (as referred to in paragraph 20.9). Therefore, staff consider it unnecessary to explicitly refer to this type of communication as forming part of the ‘negotiations’ about the conditions of the asset transfer to the reporting entity.</p> <p>Based on the analysis above, staff recommend including brief guidance that internal expectations communicated by an entity’s management regarding the use of a received asset are, on their own, insufficient to give rise to a deferred revenue obligation if those expectations are formed after the asset has been received.</p> |

| Stakeholder comments | Staff analysis |
|---|--|
| <p>(d) A few stakeholders commented on the adequacy of examples of ‘common understanding’; and two of them suggested further examples/clarification relating to:</p> <p>(i) para. 20.9 of ED 335, in which each example of evidence of a ‘common understanding’ appears to refer to an enforceable legal or constructive obligation. Clarification or further examples should be developed to illustrate deferrals of revenue required when a legal or constructive obligation does not exist¹⁶; and</p> <p>(ii) funds that are repurposed, as many NFP entities that raise funds from websites, where a common understanding and intent by the entity exists to use the funds in a particular way (e.g. disaster responses) but they may be permitted to spend those funds on other activities or ‘where most needed’¹⁷.</p> | <p><i>d) Adequacy of examples of a ‘common understanding’</i></p> <p>In relation to a stakeholder comment regarding para. 20.9, staff disagree with the view that each example in that paragraph appears to refer to an enforceable legal or constructive obligation. Paragraph 20.9 describes how a ‘common understanding’ may be established in relation to an asset transferred to the reporting entity, and is silent on whether an enforceable obligation exists. The fact that each circumstance described in para. 20.9 could be accompanied by an enforceable obligation does not mean that an enforceable obligation would necessarily arise. Therefore, staff recommend not to amend para. 20.9 in response to the stakeholder’s comment in paragraph (d)(i). Nevertheless, staff recommend clarifying further that a ‘common understanding’ exists regardless of whether the reporting entity has an enforceable obligation to provide promised goods/services, in Illustrative Examples E, F and H (which relate to a fundraising gala event and specific-purpose grants applied for by the reporting entity). Staff do not consider clarification is required to the other revenue-related illustrative example in ED 335 (Example G) because its fact pattern does not include a ‘common understanding’, whether enforceable or not.</p> <p>In relation to providing examples of repurposed funds, staff observe that it is common for charities to seek donations for a specific appeal but also indicate that if greater funds are raised than needed for the intended purpose, the excess funds will be redirected to an alternative charitable purpose. In view of the common nature of this phenomenon and the potential for uncertainty regarding its implications for whether a common understanding exists between donors and the reporting entity regarding the purpose for which the donated funds are to be expended or transferred, or regarding the period over which the donated funds are to be used, staff recommend that the Board adopts the stakeholder’s suggestion to add an illustrative example of a charity that seeks donations for a specific appeal but also indicates that if greater funds are raised than needed for the intended purpose, the excess funds will be redirected to an alternative charitable purpose if the common understanding is established between the provider and the entity.</p> |
| <i>Other additional guidance or clarifications requested by stakeholders</i> | |

16 Expressed in a written submission by an individual stakeholder classified as ‘other’.

17 Expressed in a written submission by a professional services firm.

| Stakeholder comments | Staff analysis |
|--|---|
| <p><u>Scope of transactions included in revenue</u></p> <p>(A) One stakeholder suggested clarifying whether, under para. 20.1, the proposed requirements in Section 20 would apply only to inflows from the Tier 3 NFP entity's ordinary activities, and thus exclude (for example) grants received outside the entity's ordinary activities¹⁸.</p> <p>(B) Similarly to the stakeholder's concern noted in para. (A) above, some other stakeholders considered amendments are needed in para. 20.1(a)(i), which excludes sales of assets from the revenue section, although inventories are assets and would give rise to revenue on sale. Similarly, they also noted that para. 14.3(b) excludes property held for 'sale in the ordinary course of business', but in the event an NFP entity holds such assets, any sale of such assets is excluded from being recognised as revenue based on para. 20.1(a)(i), whereas arguably it should be treated as revenue¹⁹.</p> | <p>Consistent with Tier 2 reporting requirements in AASB 15, revenue is defined in ED 335 (para. 20.1) as income arising in the course of an entity's ordinary activities. Therefore, staff consider the ED text is sufficiently clear to indicate that grants received outside the course of the entity's ordinary activities would not qualify as revenue. Staff are also unsure what would be an example of a grant received outside the course of an entity's ordinary activities. However, staff consider that if such an instance does occur, then an entity could apply the Tier 3 hierarchy in Section 9 to develop an accounting policy dealing with a similar or related issue based on Tier 3 requirements and account for the grant under Section 20.</p> <p>However, a concern raised by stakeholders noted in (B) is that sales of inventories are excluded from revenue by para. 20.1(a)(i). This is because all sales of assets – rather than just those occurring outside the entity's ordinary activities – are excluded from revenue by para. 20.1(a)(i). This aspect is ameliorated to some extent by para. 20.1(c) including sales of inventories in revenue (although, para. 20.1(c) refers only to increases in <i>debtors</i> resulting from the entity's performance, but does not refer to cash sales of inventories).</p> <p>Another concern raised by stakeholders noted in (B) is that para. 20.1(a)(i) inappropriately excludes from revenue any income from the sale of property held for sale in the ordinary course of business (which, consistent with the Tier 2 definition of 'investment property' in para. 5 of AASB 140 <i>Investment Property</i>, is excluded from 'investment property' by para. 14.3(b) of ED 335). Property held for sale in the ordinary course of business would be classified as inventory in accordance with para. 12.1(b) of ED 335, and income from its sale would be classified as revenue in accordance with para. 20.1(c) (which includes sales of inventories in revenue – however, as noted above, para. 20.1(c) of ED 335 omits cash sales of inventories). Therefore, staff consider that para. 20.1 does not necessarily exclude from revenue any income from the sale of property held for sale in the ordinary course of business. However, staff also consider that the scope-out of inflows from sales of assets in para. 20.1(a)(i) is confusing and should be omitted.</p> <p>Therefore, staff recommend clarifying in the scope paragraph that sales of assets are revenue when they arise in the course of the entity's ordinary activities.</p> |
| <p><u>Whether Section 20 implies recognition of assets not controlled by the reporting entity</u></p> | <p>Paragraph 69 of AASB 15 states:</p> |

18 Expressed in a written submission by an individual stakeholder classified as 'other'.

19 Expressed in a written submission by two professional bodies.

| Stakeholder comments | Staff analysis |
|---|--|
| <p>A stakeholder expressed concern with para. 20.3(a)(i) of ED 335 referencing ‘an asset’ and queried whether there is any inconsistency with the definition of an asset (i.e. the existence of control) under the Conceptual Framework for any non-cash assets being consumed in providing a good or service back to the person that has provided it, as addressed in para. 69 of AASB 15²⁰.</p> | <p>“If a customer contributes goods or services (for example, materials, equipment or labour) to facilitate an entity’s fulfilment of the contract, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as non-cash consideration received from the customer.”</p> <p>The proposed Tier 3 reporting requirements for revenue do not address resources not controlled by smaller NFP entities because that issue seems unlikely to be commonly encountered by such entities. Paragraphs 20.1 and 20.3 of ED 335 refer to recorded inflows of assets (as the trigger point for possible recognition of revenue). Nothing stated in those paragraphs suggest that an entity might recognise assets and (at some point) revenue for inflows that are not assets of the entity because they are not controlled. Therefore, staff recommend that para. 20.3(a)(i) of ED 335 remains unchanged, given only one stakeholder raised this concern.</p> |
| <p><u>Referring to third-party beneficiaries</u></p> <p>Some stakeholders suggested adding scenarios within para. 20.11 – 20.13 to address the provision of goods/services to a third-party beneficiary instead of the customer/provider, because:</p> <ul style="list-style-type: none"> (a) such activities are likely to occur commonly under grants, donations and other funding arrangements; and (b) in those cases, benefits are derived by third parties at a future date that requires deferral of revenue²¹. | <p>Staff agree that deferred revenue obligations can arise when there is a common understanding that, in relation to an asset provided to the entity, the entity will provide goods or services to third party beneficiaries. However, staff consider that this principle primarily affects the identification of deferred revenue obligations; the satisfaction of deferred revenue obligations (addressed in para. 20.11 – 20.13) ensues from the identification of deferred revenue obligations. Therefore, staff consider that the implications of a common understanding that goods or services will be provided to third party beneficiaries should be addressed in the subsection of Section 20 dealing with the existence and identification of a deferred revenue obligation (in para. 20.6 – 20.10). Staff note that para. 20.7(a) of ED 335 contains the following example of an entity’s performance in a particular manner as referred to in para. 20.3(a) – which <i>de facto</i> defines deferred revenue obligations – is “transferring specified goods or rendering specified services, either to the asset provider in return or to third party beneficiaries”. Therefore, staff consider it is unnecessary to add a reference to third party beneficiaries in para. 20.11 – 20.13, and therefore recommend not amending the text of Section 20 in response to this suggestion by stakeholders.</p> |
| <p><u>Rights to receive cash</u></p> | <p>Paragraph 35 of AASB 15 includes: “An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met: ...</p> |

20 Expressed in a written submission by a professional services firm.

21 Expressed in a written submission by two professional bodies.

| Stakeholder comments | Staff analysis |
|---|--|
| <p>A stakeholder commented that the proposals do not appear to cater for rights to receive future cash payments (i.e., recognising a work-in-progress asset as work is performed); hence, they disagree with para. 20.3(b), which refers to recognising revenue when there is a right to receive the asset²².</p> | <p>(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5)".</p> <p>Staff consider that it would be uncommon for smaller NFP entities to create work in progress that a customer controls as an asset is created or enhanced, and therefore that guidance should not be included in the Tier 3 Standard specifically to address amounts rights to receive future transfers in respect of work in progress. The most frequently occurring circumstance in which a smaller NFP entity might generate revenue over time is when, as referred to in para. 20.7(b) of ED 335, the entity acquires or constructs a specific asset, such as a building, under the terms of a capital grant. For example, the entity might be funded in arrears under the grant for work performed. In such an instance, work in progress created under the grant arrangement would represent a right to compensation for work performed even though, until it is billed for, an 'account receivable' is not created. Staff consider that para. 20.3(b) caters for such circumstances. For this reason, and because only one stakeholder raised this issue, staff recommend that para. 20.3(b) remains unchanged in response to the stakeholder's comment.</p> |
| <p><u>Perpetual-life assets</u></p> <p>A stakeholder argued that greater clarity is needed for the treatment of certain classes of assets, such as land, where the underlying asset is not used up and may have a perpetual life. For perpetual-life assets, there may be varying interpretations, where para. 20.12 may be interpreted as either:</p> <p>(a) not applying to the utilisation of the land as the asset is not to support general operating costs of the entity over an unspecified period of time (where a reader does not interpret capital outlay avoided as being 'general operating costs'); or</p> | <p>An essential requirement for the existence of a deferred revenue obligation, per para. 20.3(a) of ED 335, is that a common understanding exists that the entity will perform in a particular manner resulting in the related expenditure, transfer or using up of either the asset provided to the entity or other assets with a similar value. While land may not be 'used up' or consumed in the manner described in paragraph 20.3(a) (because land is not depreciated), staff think that the key condition in para 20.12 for deferral of income is that the entity must perform in a particular manner with regards to the donated asset <u>for a specified period of time</u>. The fact that the future economic benefits of land is not consumed in the same way as finite-life assets does not mean that land or other perpetual life assets cannot be regarded as being given to support the general operating costs of the entity. For example, staff think that the entity generated rental income from use of the transferred asset and that rental income was used to fund the operations of the entity, this would clearly be regarded as the asset being used to support the general operating costs of the entity.</p> <p>Staff think that the provision of land to an entity given on the expectation alone that the entity can save on future rental costs will generally not satisfy the criteria for recognising a deferred revenue obligation. This is because the entity is not obliged to perform in a specific, measurable or time-bound manner if an entity is simply given land for an NFP entity to use, even if it is expected to be used in that manner for an undefined (perpetual) period. In contrast, paragraph 20.12 might provide guidance in instances where land is transferred</p> |

22 Expressed in a written submission by an individual stakeholder classified as 'other'.

| Stakeholder comments | Staff analysis |
|--|---|
| <p>(b) applying to the transaction as there is an intent to 'support the general operating costs of the entity' by the avoidance of lease outflows as it relates to a hypothetical asset performing the same tasks.</p> <p>The stakeholder recommended that the Board clarifies whether paragraph 20.12 could (in conjunction with paragraph 20.3) permit the deferral of income recognition for a grant of a perpetual-life asset²³.</p> | <p>with the shared understanding that it will be used by the entity for a stated purpose for at least a certain term.</p> <p>On reflection of the text of paragraphs 20.3(a) and 20.12 and staff's thinking as noted above, staff consider that it is not necessary for a Tier 3 Standard to clarify that the deferral of income recognition for a grant of a perpetual-life asset is possible. Therefore, staff recommend making no change to Section 20 in response to the stakeholder feedback.</p> |
| <p><u>'Fair value' of receivables</u></p> <p>A stakeholder expressed concern that 'fair value' is described as the measurement basis for recognised receivables in para. 20.5, although the requirements state that the amount recognised is the amount expected to be received, which is not fair value (reflecting the market participant/exit price amount)²⁴.</p> | <p>In developing ED 335, the Board acknowledged that "the amount of consideration to which the entity expects to be entitled" is not technically in principle consistent with fair value per paragraph 11.2. Nevertheless, the Board decided to issue its proposal as drafted on the expectation that in many instances, having regard to the typical transactions undertaken by NFP private sector entities of the size envisaged by the Board, the transaction price will generally be the same as its fair value.²⁵</p> <p>However, having regard to this feedback and the feedback from other stakeholders to reduce the verbosity of requirements and clarify them, on reflection, staff think that the initial measurement of debtors/ revenue could be stated more plainly to:</p> <ul style="list-style-type: none"> • avoid using terminology used in Tier 1/Tier 2 requirements (AASB 15, para. 47) that implies taking variable consideration into account, despite the Board's proposal in SMC 29(a) to exclude from Section 20 any reference to variable consideration from the initial measurement of accounts receivable; and • avoid ambiguity about whether a debtor should initially be measured at an amount that includes the entity's initial estimate of expected impairment losses. |

23 Expressed in a written submission by a professional services firm.

24 Expressed in a written submission by an individual stakeholder classified as 'other'.

25 Refer Agenda Paper [4.3](#) for the Board meeting in March 2024 (Meeting 201)

| Stakeholder comments | Staff analysis |
|---|---|
| | <p>Ignoring variable consideration and expected impairment losses would likely cause the initial measurement to further depart from the notion of fair value described in Section 11.</p> <p>In view of the feedback about internal consistency and verbosity, and to keep the requirements for debtors / revenue simple and a proportionate response, staff recommend that the initial measurement of debtors be delinked from fair value. That is, for paragraph 20.5 of ED 335 to be amended to simply require debtors to be initially measured at the transaction price (a corresponding amendment would be made to paragraph 10.5 of ED 335).</p> |
| <p><u>Deferral of revenue recognition for capital grants</u></p> <p>A stakeholder argued that capital grants, such as a grant with a requirement to use a granted building for specified activities, are not adequately dealt with. They noted that para. 20.12 states that capital grants are not deferred, which contradicts other requirements if there is a common understanding of how the asset is used. They argued that revenue recognition for capital grants should be deferred even if deferral would not be permitted under AASB 1058²⁶.</p> | <p>Staff disagree with the stakeholder's claim that para. 20.12 of ED 335 states that capital grants are not deferred. That paragraph states that deferred revenue obligations do not arise from expectations to use assets received to support the <i>general</i> operating costs of an entity over an <i>unspecified</i> period of time. It is based on para. A77 of the New Zealand Tier 3 Standard.</p> <p>If a grant of a building, or other capital grant, is made to the entity on the common understanding that it will either be used to render specified services, or for a specified period (even if only to support the entity's activities generally) – or both – para. 20.7 of ED 335 states that revenue is deferred if the entity's expected performance would result in the related expenditure, transfer or using up of either the asset provided to the entity or other assets with a similar value.</p> <p>Therefore, staff recommend that para. 20.12 is not amended in response to this stakeholder's comment.</p> |
| <p><u>Pledges</u></p> <p>Another stakeholder recommended that the disclosure requirements for contingent assets be explicitly referenced for pledges²⁷.</p> | <p>Para. 20.19 specifies that a pledge is a promise made by a donor to contribute assets to the entity in the future. Pledged assets and related revenue are not recorded until the promised assets are received. However, it does not make any cross-references to contingent asset requirements in Section 19. While illustrative Example I in ED 335 identifies pledges made to the entity as contingent assets as defined in para. 19.14 of ED 335.</p> |

²⁶ Expressed in a written submission by an individual stakeholder classified as 'other'.

²⁷ Expressed in a written submission by a professional services firm.

| Stakeholder comments | Staff analysis |
|--|---|
| | <p>While there is already some guidance provided in the illustrative example, staff consider it would be clearer to make an explicit cross reference to Section 19 as per the stakeholder’s suggestion. Therefore, staff recommend adding clarification noting that if pledges have been made to the entity and are probable to result in an inflow of economic benefits, the disclosure requirements in para. 19.15 of ED 335 for contingent assets would apply to the pledges.</p> |
| <p><u>Referring to possibility that professional services have readily observable market prices (para. 20.22)</u></p> <p>A stakeholder recommended removing the statement that professional services “might have readily observable market prices” from para. 20.22 of ED 335 because this statement may be interpreted as an opinion that undermines the free accounting policy choice of whether to recognise volunteer services²⁸.</p> | <p>Staff consider that the purpose of para. 20.22 is to provide guidance on factors affecting the likelihood that professional services would satisfy the ‘reliable measurement’ criterion for electing to recognise volunteer services received, which is set out in the first sentence of para. 20.20. Paragraph 20.22 is almost identical to the first two sentences of para. 20 of AASB 1058, which provide guidance on the limited election to recognise volunteer services in para. 18 – 19 of AASB 1058. Therefore, staff disagree with the stakeholder’s view that para. 20.22 might undermine the free election whether to recognise volunteer services.</p> <p>For these reasons, staff disagree with the stakeholder’s recommendation to remove the statement from para. 20.22 and therefore, staff recommend para. 20.22 not be amended in response to this stakeholder’s comment.</p> |

28 Expressed in a written submission by a professional services firm.

Staff analysis of stakeholders' comments on SMC 29

- 17 As reported in Agenda Paper [4.3](#) considered at the May 2025 Board meeting, of the 18 comment letters that responded directly to ED 335, 8 respondents provided a response to SMC 29. Staff did not ask Question SMC 29 at virtual/in-person outreach sessions. The following table provides an overview of the responses received on SMC 29. The 8 comment letters expressed unanimous agreement with the Board's proposals in SMC 29 and were submitted by 5 professional services firms, 3 professional bodies and 1 other stakeholder.

Table 3 SMC 29 responses

| | Agree | Agree with exception | Disagree | Unsure |
|---|--------------|-----------------------------|-----------------|---------------|
| Out of 8 comment letters that commented on SMC 29 | 8 (100%) | - | - | - |

- 18 Those respondents stated that including the requirements/guidance referred to in paragraph 13 of this paper would add complexity to the Tier 3 requirements for transactions and events expected to be uncommon for Tier 3 NFP entities. In light of that stakeholder feedback, staff recommend that the Board retains the proposals in SMC 29 in the Tier 3 Standard.

Summary of staff recommendations

- 19 In view of the supportive stakeholder feedback summarised in Tables 1 and 3, the staff analysis of stakeholders' comments in Table 2 and the fact that the stakeholder feedback did not provide new compelling evidence that should cause the Board to change its views, staff recommend that the proposals in Section 20 of ED 335 should be retained in the Tier 3 Standard as exposed, except for the following amendments:
- (a) including brief guidance that internal expectations communicated by an entity's management regarding the use of a received asset are, on their own, insufficient to give rise to a deferred revenue obligation if those expectations are formed after the asset has been received;
 - (b) clarifying in Illustrative Examples E, F and H that the 'common understanding' referred to in the examples exists regardless of whether the reporting entity has an enforceable obligation to provide the promised goods/services;
 - (c) adding an illustrative example of a charity that seeks donations for a specific appeal but also indicates that if greater funds are raised than needed for the intended purpose, the excess funds will be redirected to an alternative charitable purpose if the common understanding is established between the provider and the entity;
 - (d) clarifying in the scope paragraph that sales of assets are revenue when they arise in the course of the entity's ordinary activities;
 - (e) in para. 20.5, replacing the reference to fair value as the initial measurement requirement for debtors with a reference to 'transaction price'; and
 - (f) adding clarification noting that if pledges have been made to the entity and are probable to result in an inflow of economic benefits, the disclosure requirements in para. 19.15 of ED 335 for contingent assets would apply to the pledges.

Question 1 to Board members

Do Board members agree with the staff recommendations to finalise the Tier 3 requirements in Section 20 of ED 335 as exposed, subject to any redrafting necessary to improve the clarity of the requirements, except for the amendments listed in paragraph 19?

If not, what do Board members suggest?

Appendix A – Summary of aspects of IPSAS 47 Revenue

- 1 IPSAS 47 includes separate recognition and measurement requirements for:
 - (a) revenue from transactions without binding arrangements; and
 - (b) revenue from transactions with binding arrangements.
- 2 IPSAS 47 defines a ‘binding arrangement’ as “an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement” (para. 4, emphasis added). It states that “an arrangement is not a binding arrangement if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unsatisfied binding arrangement without compensating the other party (or parties)” and specifies two criteria for determining whether a binding arrangement is wholly unsatisfied.
- 3 If an entity is a party to a binding arrangement, it accounts for that arrangement using the ‘binding arrangement accounting model’ if it meets the criteria in para. 56 of IPSAS 47;²⁹ otherwise, it recognises any consideration received in the arrangement as revenue only when either of the following events has occurred:
 - (a) the entity has fully satisfied its compliance obligation to which the consideration that has been received relates and the consideration received from the resource provider is nonrefundable; or
 - (b) the binding arrangement has been terminated and the consideration received from the resource provider is non-refundable.
- 4 A compliance obligation is defined in IPSAS 47 as “an entity’s promise in a binding arrangement to either use resources internally for distinct goods or services or transfer distinct goods or services to a purchaser or third-party beneficiary”.
- 5 The binding arrangement accounting model in IPSAS 47 has similarities to the accounting model for deferral and subsequent recognition of revenue under the proposed revenue recognition requirements in ED 335 (which would require deferral of recognising revenue from inflows of resources if the entity and the provider of the asset have a common understanding that, in response, the entity will perform in a particular manner resulting in the expenditure, transfer or using up of that asset or other assets of the entity with a similar value). However, the scope of deferred revenue obligations is narrower under IPSAS 47 since it is limited to binding arrangements. In addition, the binding arrangement accounting model in IPSAS 47 is more detailed, being based on a five-step revenue recognition model similar to that in AASB 15 (see IPSASB’s Basis for Conclusions on IPSAS 47, para. BC78).

29 Para. 56 of IPSAS 47 sets criteria for the binding arrangement model where all criteria must be met as follows:

- (a) The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations;
- (b) The entity can identify each party’s rights under the binding arrangement;
- (c) The entity can identify the payment terms for the satisfaction of each identified compliance obligation;
- (d) The binding arrangement has economic substance; and
- (e) It is probable that the entity will collect the consideration to which it will be entitled for satisfying its compliance obligations in accordance with the terms of the binding arrangement.