



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

Staff FAQs

(Sections 1 and 3 were developed jointly by BDO Australia and AASB Staff)

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These FAQs have been developed by AASB staff, and hence express the view of AASB Staff, not necessarily the AASB itself. Staff FAQs are intended to be helpful material used to guide constituents in the application of AASB Standards, but do not change the requirements of AASB Standards. Entities should always consider their own specific facts and circumstances when applying the requirements of AASB Standards.



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Section 1: Scope and Effective Dates

1. When are AASB 9 Financial Instruments, AASB 15, AASB 16 and AASB 1058 mandatorily applicable to not-for-profit (NFP) entities?

	Mandatory Application		
Australian Accounting Standard	For Annual Reporting Periods beginning on or after	To 31 December year-ends on or after	To 30 June year-ends on or after
AASB 9	1 January 2018	31 December 2018	30 June 2019
AASB 15	1 January 2019	31 December 2019	30 June 2020
AASB 16	1 January 2019	31 December 2019	30 June 2020
AASB 1058	1 January 2019	31 December 2019	30 June 2020

Refer to FAQ 3 for early adoption considerations.

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2. Which Australian Accounting Standards are applicable to the recognition of income and revenue by NFP entities?

Does the annual reporting period begin on or after 1 January 2019?		
Yes	No	
Apply: AASB 15 and AASB 1058 (and AASB 1004 when accounting for parliamentary appropriations)	Apply: – AASB 111 – AASB 1004 – Interpretation 15 – Interpretation 131	Apply: – AASB 118 – Interpretation 13 – Interpretation 18 – Interpretation 1042

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3. If I early adopt AASB 9, AASB 15, AASB 16 or AASB 1058, what is the impact?

Standard the NFP entity has early adopted	Other standards which must also be early adopted	Reference
AASB 9	None	AASB 9 paragraph Aus1.3
AASB 15	AASB 1058	AASB 15 paragraph AusC1.1
AASB 16	AASB 15 and AASB 1058	AASB 16 paragraph C1, AASB 15 paragraph AusC1.1
AASB 1058	AASB 15	AASB 1058 paragraph C1

As a general matter, entities are also required to early adopt any related consequential amendments arising from the adoption of the above Standards.

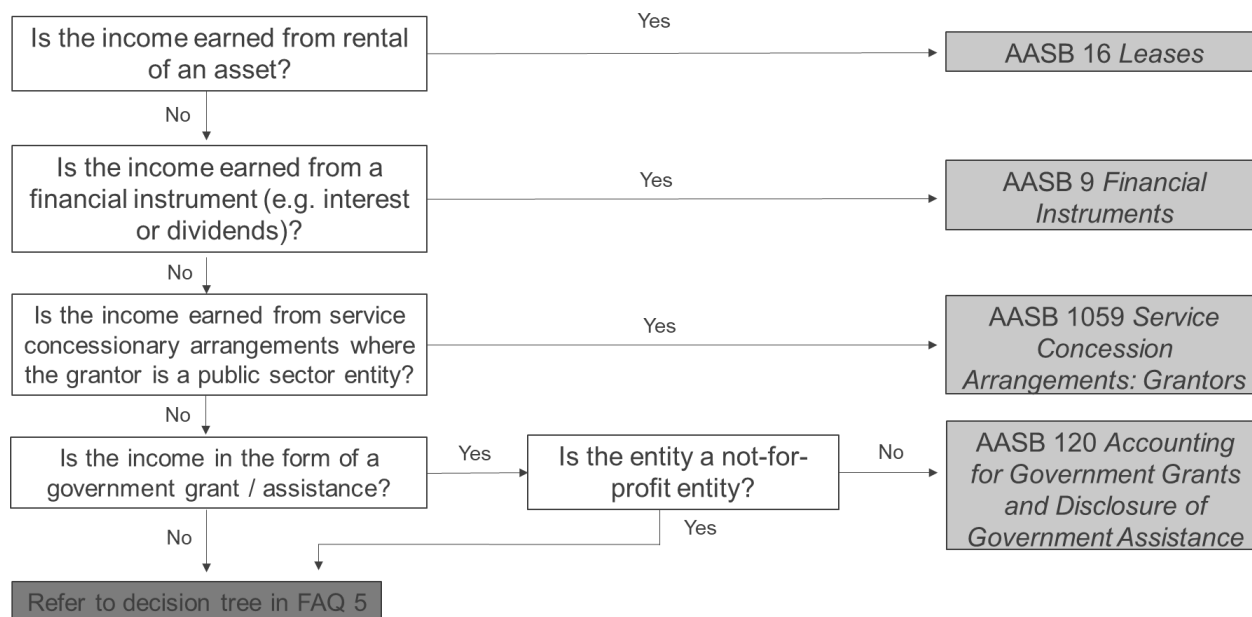
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4. Which is the relevant standard for accounting for an NFP entity's income?

This flowchart (and that in FAQ 5) assists NFP entities in determining the relevant Australian Accounting Standard for their income transactions illustrating some of the considerations to be taken into account. The list of the relevant standards is not exhaustive.

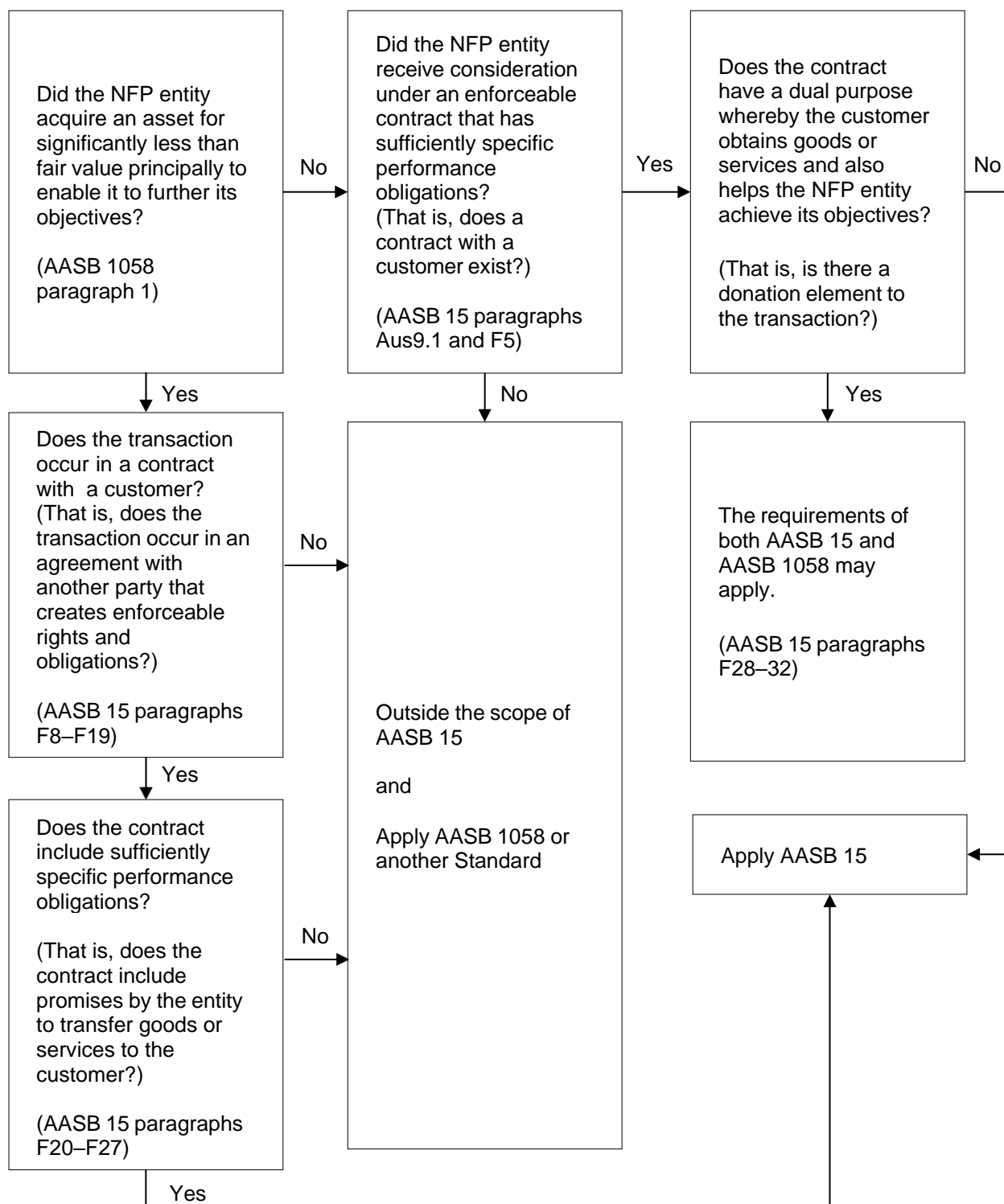


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5. When would an NFP entity's revenue be within the scope of AASB 15?



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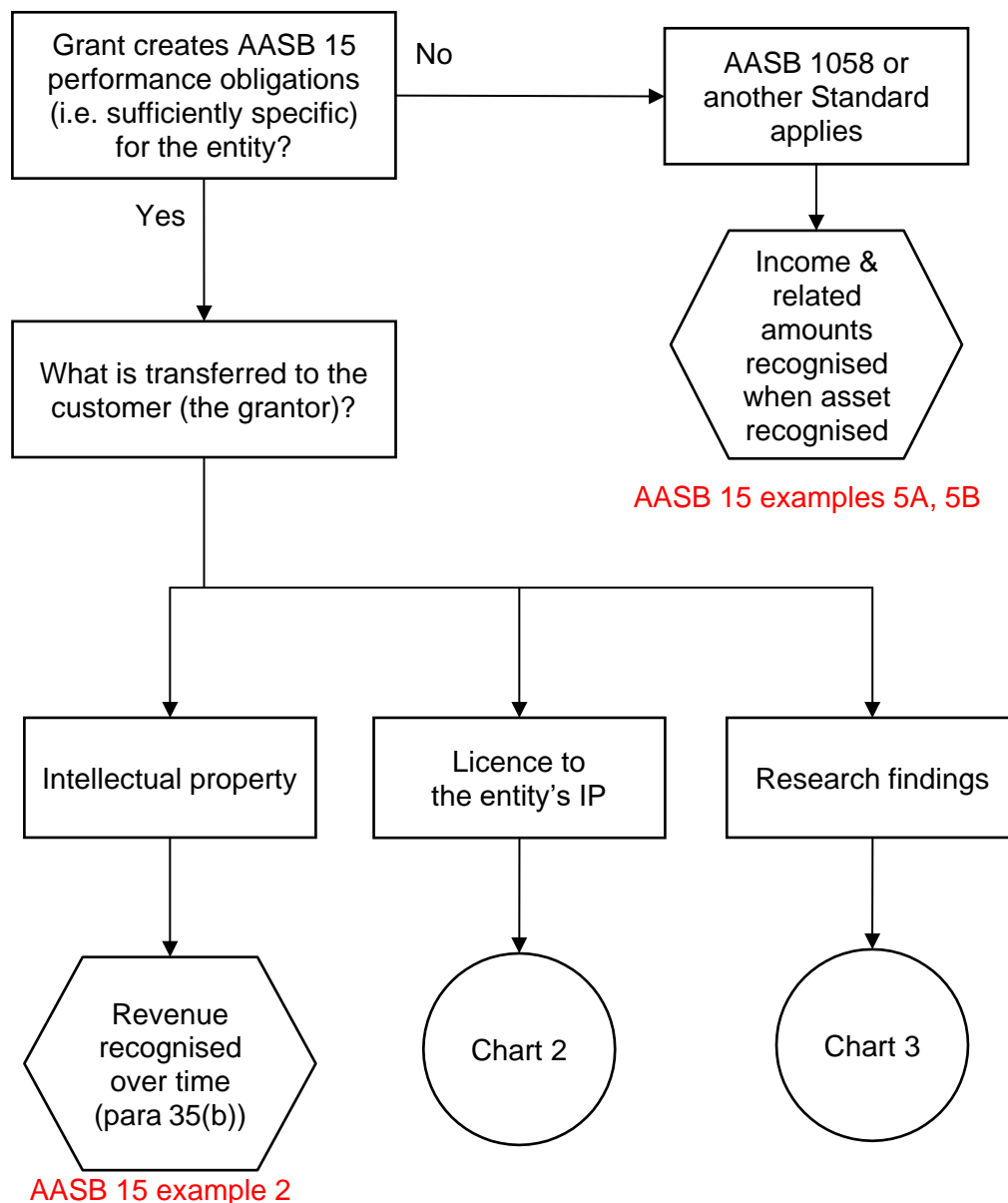
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Section 2: Accounting for Research Grants

6. If my entity performs research activities, which Standard do I apply when accounting for grants received and when do I recognise revenue?

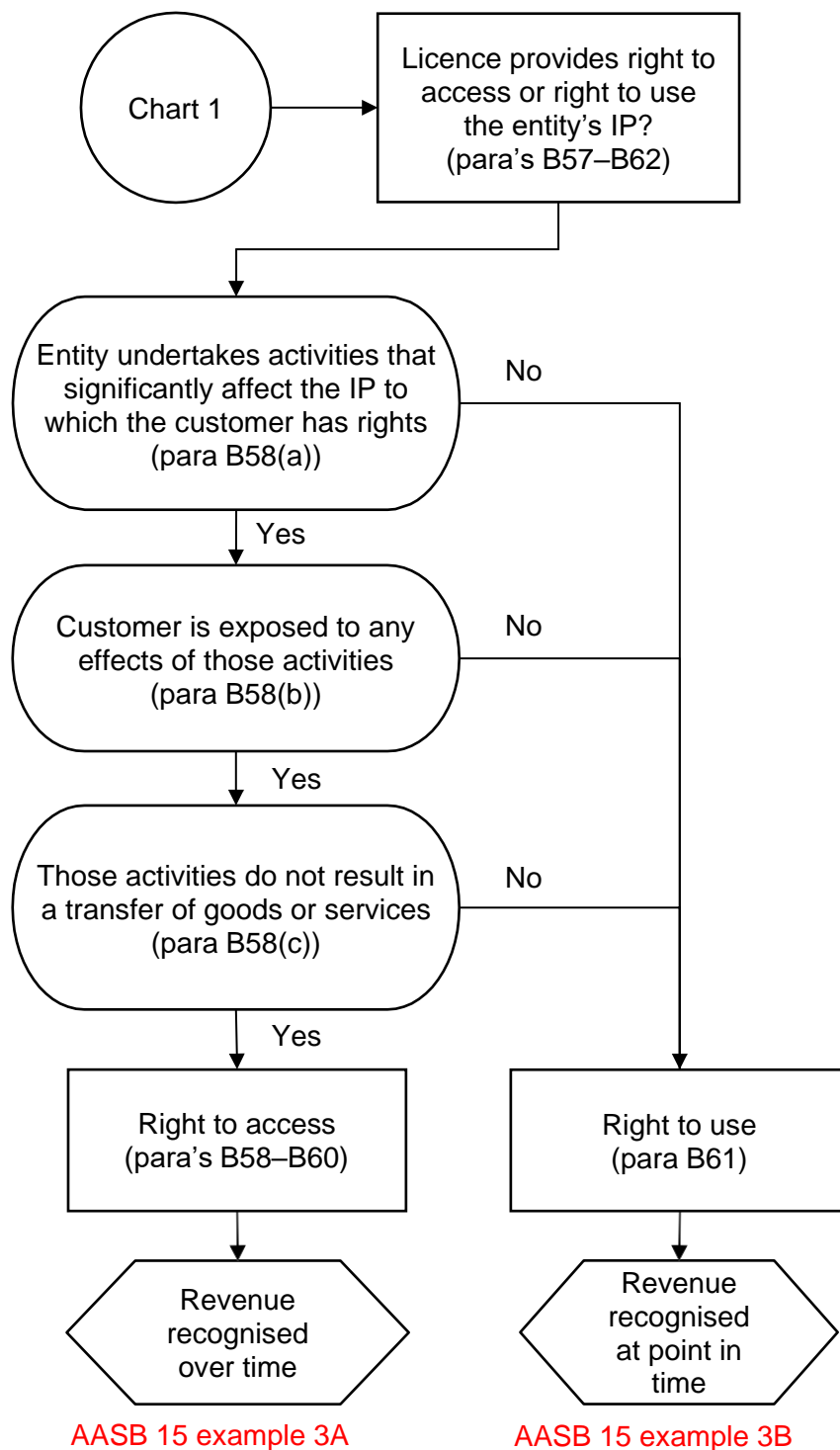
The AASB 15 illustrative examples noted below are part of the Australian illustrative examples for NFP entities added to AASB 15 by AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities (December 2016).

Chart 1



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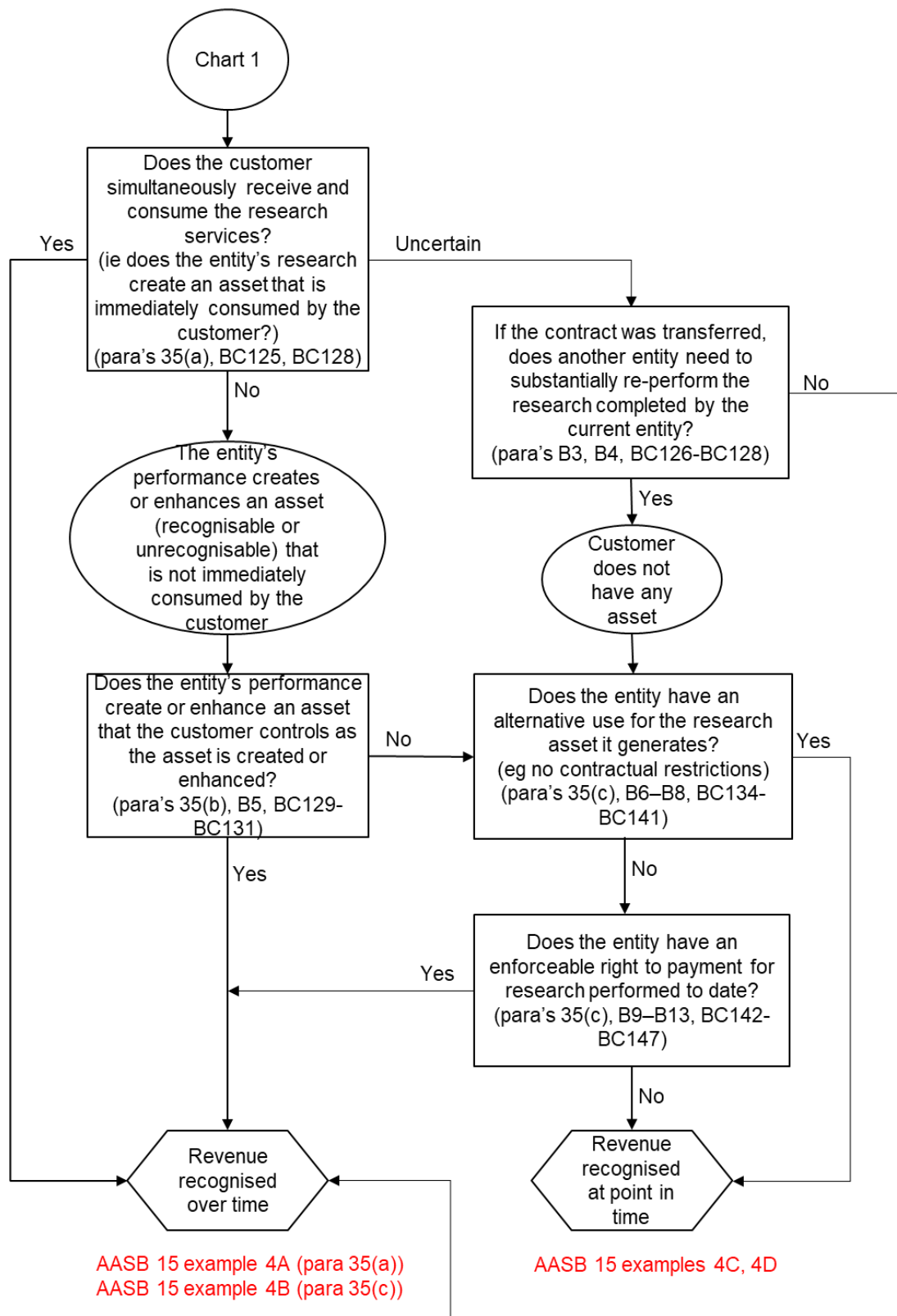
Chart 2





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Chart 3 – Research Findings





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7. How does an NFP entity that receives a research grant determine whether there are sufficiently specific performance obligations under AASB 15?

Given the uncertainties inherent in research, the findings from research typically cannot be known in advance and therefore a specific outcome cannot be promised at the outset of a research grant agreement. For this reason, the agreement—which includes the schedule that outlines the research activity—is instead specific in terms of the objectives of the research and how the research will be conducted (i.e. specificity about inputs and processes).

From a revenue recognition perspective, the focus is on whether:

- the research entity has promised to transfer goods or services (e.g. outputs from the research) to the donor or to other parties on behalf of the donor; and
- that promise is sufficiently specific such that it can be determined when the research entity has satisfied its obligation to transfer those goods or services.

Both factors must be present in order for the research entity to identify performance obligations in the agreement, which would mean that the agreement is within the scope of AASB 15 *Revenue from Contracts with Customers*. If one or both factors are not present, the agreement will instead be within the scope of AASB 1058 *Income of Not-for-Profit Entities*.

The following table illustrates how to think about the transfer of goods or services in relation to the possible outputs or other rights that a donor might be entitled to under a research grant agreement:

	Nature of output/right	Performance obligation?
1	Financial reports	No – the requirement to submit to the donor financial statements and acquittal statements are specific as to type (e.g. format and content) and frequency, but these statements do not represent a good or service that transfers to the donor. The benefit that the donor obtains from this reporting is related only to the research entity discharging its accountability for the grant funding received.
2	Progress reports	Typically no – the content of the report does not normally transfer a good or service to the donor because it does not communicate information about the findings or the research data from the research performed to date. The benefit that the donor obtains from this reporting is normally related only to the research entity discharging its accountability for the grant funding received.
3	Final report	Typically no – same as a progress report, unless the report provides research findings in some form.
4	Report on the research activity requested by the donor	Typically no – such reports do not normally provide research findings. Typically, the focus of such reporting is on discharging accountabilities rather than on communicating information on the research findings in



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Nature of output/right		Performance obligation?
		sufficient detail for the recipient to be able to obtain any substantive benefit from that information.
5	Access to personnel and premises	No – the purpose of this right is to manage risks associated with the research project rather than to provide access that would enable the donor to obtain a benefit from the research itself.
6	Access to information and “research material”	Typically no – where access to information and research material, which is defined as the project proposal and summary, progress reports and final reports, and the nature of the research materials (as defined by the agreement) does not include the underlying research data, findings or publications created from that data. The focus of the access is on discharging accountabilities rather than on transferring the goods/services such as research findings (including data). Yes – where the information and research material include research data, findings or publications created from that data.
7	Licence to IP relating to “research material”	Typically no – where the licence is to research material, which is defined as the project proposal and summary, progress reports and final reports, and the nature of the research materials (as defined by the agreement) does not include the underlying research data, findings or publications created from that data. The focus of the licence is on discharging accountabilities rather than on transferring the goods/ services such as the research findings (including data). Yes – where the research material includes research data, findings or publications created from that data.
8	Intellectual property created from the research	Yes – see Chart 1 in research grant flowchart
9	Licence to the IP created from the research	Yes – see Chart 2 in research grant flowchart
10	Research findings (including publications)	Yes – see Chart 3 in research grant flowchart. Further analysed in the following Scenarios 1 and 2.



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FAQ Scenario 1A – Enforceable agreement, performance obligation not sufficiently specific, no contract with a customer

University C receives a cash grant from a donor, XXX, of \$XX million to undertake research that aims to XXX. University C receives the cash grant upon signing the contract.

The terms of the grant are:

- a period of three years;
- the return of funds that are either unspent or not spent in accordance with the agreement;
- the grant does not specify whether and when the researcher will publish any research findings;
- University C is able to utilise the findings from the research it performs for any other use of the university (e.g. able to use the research findings and data for teaching purposes);
- the “research material” is licensed permanently to the donor on a non-exclusive basis at the commencement of the agreement – the research material comprises the project proposal and summary, annual progress reports and a final report;
- the IP arising from the research is not transferred to the donor; and
- the university has an explicit right to payment for the research services completed to date if the agreement is terminated.

In addition, the university has the practice of publishing research findings (e.g. publishing research data and/or analysis).

University C notes that the arrangement is enforceable as the grant is refundable if the research is not undertaken. However, University C concludes its arrangement with the donor is not a contract with a customer as defined in AASB 15. This is on the basis that:

- the nature of “research material” (as defined in the agreement) does not include the underlying research data, findings or publications created from that data. The focus of the reports is on discharging accountability rather than on communicating information derived from the research. As a result, the licence of the research material is not considered to be substantive; and
- although the university has a practice of publishing research findings, there is no evidence in this scenario that the donor and other parties are aware of the practice and there is a lack of specificity about when such research findings would be published. As a result, the implied promise to publish is not sufficiently specific because of the difficulty in determining whether there is an obligation that is enforceable as part of the contract and, if so, when the obligation would be satisfied.

Accordingly, the university concludes that the arrangement is not within the scope of AASB 15 and instead would be accounted for under AASB 1058 *Income of Not-for-Profit Entities*.

Accounting treatment

University C recognises a financial asset (cash) of \$XX million for the cash grant received and recognises any related amounts arising under other Australian Accounting Standards in



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accordance with AASB 1058. Any excess of the financial asset over the related amounts would be recognised as income.

The fact that the university must return the funds that are either unspent or not spent in accordance with the agreement does not by itself give rise to a provision under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* because the entity can avoid a repayment by spending the money in accordance with the agreement. As a result, a provision cannot be recognised until such a breach has occurred or is expected, creating a present obligation at that point in time. A specified time period for the use of the grant is also not a basis for recognising an obligation. In addition, as the entity has the discretion whether to spend funds received in advance of the specified period, a refund liability is not recognised unless the entity breaches the condition or a breach is expected.¹ Consequently, University C recognises \$XX million as income in accordance with AASB 1058 upon recognition of the financial asset in accordance with AASB 9 *Financial Instruments*.

FAQ Scenario 1B – Enforceable agreement, performance obligation not sufficiently specific, no contract with a customer

In this case, the facts of Scenario 1A apply, except that the grant is payable in instalments and each instalment is subject to the agreed research activities being carried out.

University C concludes that the arrangement is not a contract with a customer as defined in AASB 15 on the same basis as set out in Scenario 1A.

Accounting treatment

University C recognises a financial asset of \$XX million in accordance with AASB 9 when the university has a contractual right to receive cash under the arrangement.

Because in this arrangement payments are subject to the agreed research activities being carried out, University C recognises financial assets during the arrangement on the earlier of the receipt of grant payments from the donor or when the agreed research activities have been carried out.

The university also recognises any related amounts arising under other Australian Accounting Standards in accordance with AASB 1058. Any excess of the financial asset over the related amounts would be recognised as income.

¹ AASB 1058, paragraph B14



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FAQ Scenario 2 – Enforceable agreement, sufficiently specific performance obligation, research data and assessment only²

University C receives a cash grant from a donor, XXX, of \$XX million to undertake research that aims to XXX.

The terms of the grant are:

- a period of three years;
- the return of funds that are either unspent or not spent in accordance with the agreement;
- the grant refers to the university's policy that requires the de-identified research findings (including data) to be made available to the donor and authorised third parties periodically (e.g. at least annually at the end of each year), except when patents are being sought;³
- University C is able to utilise the research it performs for any other use of the university (e.g. able to use the research findings and data for teaching purposes);
- the "research material" is licensed permanently to the donor on a non-exclusive basis at the commencement of the agreement – the research material comprises the project proposal and summary, annual progress reports and a final report;
- the IP arising from the research is not transferred to the donor; and
- the university has an explicit right to payment for the research services completed to date if the agreement is terminated; and
- University C believes that the research may have commercial benefit and intends to only allow the access to research findings once patent applications are determined.

University C concludes that the arrangement is a contract with a customer as defined in AASB 15 on the basis that:

- University C's promise of specified research (including making the findings available) is enforceable as the grant is refundable if the research is not undertaken; and
- the university identifies its promises to make available research findings (including research data) once patent applications are determined as a sufficiently specific promise that transfers the research to the donor or third-party beneficiaries. The promise is sufficiently specific on the basis that the policies attached to the research grant specify the nature of the material (research findings (including research data)) to be made available and a timeframe for this to occur (i.e. once patent applications are determined).

2 In the October 2019 version of the Staff FAQs, this example was Scenario 2B. Scenario 2A has been removed from this version of the Staff FAQs because it has been included in the Australian Illustrative Examples accompanying AASB 15 as Example 4D (see AASB 2019-6 *Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities*).

3 Alternatively, where the grant agreement does not explicitly refer to the university's policy, provided the donors are aware of this policy, the university's past practice of making de-identified research findings available at least annually to donors and authorised third parties in accordance with its policy may create a valid expectation that the research findings will be made available (subject to the seeking of patents). In this case, the implicit promises to make available de-identified research findings would be treated as part of the grant terms.



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Accounting treatment

In accordance with AASB 15, University C allocates the cash grant to its identified performance obligation and recognises the financial asset (cash) and a contract liability of \$XX million on initial recognition.

University C concludes that the donor does not simultaneously receive and consume the benefits of the research services as they are performed. This is on the grounds that performance of the research activities results in the accumulation of knowledge, an (unrecognisable) asset that is not immediately consumed by the donor. Therefore, paragraph 35(a) is not satisfied.

The donor does not obtain the IP under the agreement, nor does the donor control the knowledge accumulated as research activities are carried out. As a result, University C determines that its research does not create or enhance an asset that the donor controls as the asset is created or enhanced. Therefore, paragraph 35(b) is not satisfied.

Moreover, the university notes that it is able to utilise the research it performs for any other use it determines. This is on the grounds that the university has no contractual or practical limitation on its use of the research, including having the ability to sell the research to another party. Therefore, the university's performance does create an asset with an alternative use to the entity, and paragraph 35(c) is not satisfied.

Accordingly, University C concludes that the performance obligation is satisfied at a point in time (when the University makes the findings available) and recognises revenue when the research findings (including research data) are made available, for example at the end of the research project when patent applications are determined.

8. Is “contemporaneous publication” the only way to transfer the benefit of research activities?

If a contract does not transfer goods or services to the customer, the contract is not within the scope of AASB 15. For example, performing research activities without transferring a benefit to the donor does not satisfy a performance obligation (AASB 15 paragraph F21). Such a contract is accounted for in accordance with AASB 1058.

For a contract to be accounted for under AASB 15, there must be a sufficiently specific promise to transfer goods or services to the customer.

The benefits of research activities can take various forms, such as IP, licence of IP, or research findings. The benefits can be transferred in many ways. For example, research findings can be published on a public website or made available to the grantor or third-party beneficiaries when the data is obtained. Alternatively, research findings can be published or made available at nominated points during the research process, at the end of the research or when any patent application has been finalised. Contemporaneous publication or availability is not necessary in order for research findings to be transferred to the donor.



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In some instances, the benefits of research activities might be broadly defined as including building research capability and innovation. For such broadly defined benefits, it would be challenging to identify sufficiently specific performance obligations for the contract to be accounted for under AASB 15.

9. Is it necessary to refer to paragraph B4 when assessing paragraph 35(a) requirements for a research grant?

AASB 15 paragraph B4 refers to an entity assessing whether another entity would have to substantially re-perform the work that the entity has completed to date, if that other entity were to fulfil the remaining performance obligations to the customer.

Paragraph B4 should be applied in the context of AASB 15 paragraph 35(a). That is, the reperformance test specified under paragraph B4 is not a standalone test (IFRS 15, paragraph BC128).

For example, where a research grant contract requires the entity to share the research findings as the research is performed, the entity's contemporaneous transfer of research findings meets paragraph 35(a) requirements and the reference to paragraph B4 and its reperformance test is not necessary.

However, where a research grant contract requires the periodic transfer or transfers of research findings, the benefits of the research activities are accumulated as the research is performed, and hence not immediately consumed by the customer (donor). In this case, the customer does not simultaneously receive and consume the benefits and the paragraph 35(a) requirement is not met. The reperformance test under paragraph B4 is therefore not relevant. This is the case even if the research contract permits a researcher to take with them all research findings including data when they move to a second institution, because the customer does not receive any benefit as a result of the researcher moving institutions.

In some circumstances, the application of paragraph 35(a) may be "unclear". IFRS 15, paragraph BC126 illustrates a scenario where customer-owned goods are on its way to be transported to a contract-specified location. Before the goods are delivered to the hands of the customer, it is difficult to determine whether any benefit of the delivery service has been received by the customer. In this case, the uncertainty makes the additional reperformance test in paragraph B4 necessary to help make the assessment. In this case, the customer does obtain the benefit of the service as the goods ultimately are delivered to the specified location with less additional delivery service required. This contrasts with the research case where a transfer of research findings is required for the donor to benefit, and no partial transfer occurs merely by the carrying out of the research.



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10. Why did the Board decide not to extend “capital grant accounting” under AASB 1058 to research grants?

“Capital grant accounting” is specified in AASB 1058 to recognise the underlying non-financial asset and income as the asset is constructed, effectively deferring the income over the construction period.

In developing AASB 1058, the Board acknowledged that diverse practice exists in accounting for research activities that are undertaken on behalf of a donor but benefiting the community at large. The Board decided not to extend capital grant accounting (i.e. the recognition of a liability despite the absence of performance obligations) under AASB 1058 to research grant arrangements.

This is because capital grant accounting applies to arrangements where the donor had intended to transfer a recognisable non-financial asset to the NFP entity for use by the entity itself. In the research grant scenario, as AASB 1058 paragraph BC102 points out, an NFP entity may be provided a grant to conduct research activities, with any detailed research data collected and rights to any commercial use of the data retained by the NFP entity. AASB 138 *Intangible Assets* does not permit research activities to be recognised as an asset.

The Board noted that extending the capital grant accounting to research grants would “create ambiguity in the distinction between a service and a good” because many service contracts arguably give rise to (unrecognisable) knowledge or expertise for the service renderer, an incidental product to the service contract. It would also create confusion as to whether AASB 1058 would allow certain intangible assets to be recognised, where their recognition is otherwise prohibited (AASB 1058, paragraph BC104).

Instead, the Board decided to provide illustrative examples to help users with the application of the Standard. Examples were included with AASB 1058, and AASB 15 was amended by the addition of Appendix F, with further research grant examples. The Board decided to specify requirements for “capital grants” in AASB 1058 to recognise the underlying non-financial asset and income as the asset is constructed, as an exception to the general requirements.

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Section 3: Identifying and Recognising Performance Obligations in NFP Schools

FAQ 11 and 12 illustrate a specific application of AASB 15 Example 7A to private schools.

11. How does an NFP school account for non-refundable upfront fees charged to place prospective students on a waiting list?

Background

For illustration purposes, assume that the application form sets out the following terms and conditions:

- Prospective students will be added to the waiting list to be considered for admission in their desired year in order of receipt of their application with some exceptions. In particular, priority of consideration will be given to:
 1. children of alumni;
 2. siblings of current and past students; and
 3. members of the school's parish,irrespective of when their applications were received. Enrolments may also be subject to an academic assessment of the prospective student and an interview with the head of campus.
- An application is a prerequisite to admission but not a guarantee of enrolment. All decisions to offer a place for enrolment remain at the discretion of the school.
- As applications for admission may exceed available places, payment of the waiting list fee does not guarantee an offer for admission.
- Payment of the waiting list fee is non-transferrable and non-refundable.

Analysis

Is the contract within the scope of AASB 15 Revenue from Contracts with Customers?

The school first considers whether the agreement is within the scope of AASB 15, by referring to AASB 15 paragraphs 9-21 and F5-F19 to determine whether there is a contract with a customer:

- there is a customer -- the parent – who has promised consideration in exchange for the school to add a prospective student to a waitlist (see AASB 15 paragraphs 9, F6-F7);
- there is a written agreement – the application form (see paragraphs 10, F8-F9);
- however whether the agreement creates enforceable rights and obligations (i.e. whether there is a contract) depends on specific facts and circumstances of the agreement (see AASB 15 paragraphs 9-10, F10-F18). The school will need to consider whether the agreement (i.e. the application form) includes sufficiently specific requirements of each of the parties to create an enforceable right (see paragraph F12). For example:



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- Does the form clearly set out what services the parent can expect from the school in exchange for paying the waitlist fee, such that the parent could legally enforce specific performance of those services by the school?
- Would the parent be able to demonstrate that the child has not been placed on the waitlist, that the school has not considered those on the waitlist in the correct order (taking account of the exceptions), or that the school has to consider those on the waitlist at all?
- Would there be legal remedies available to the parent if they were able to demonstrate that the school did not undertake the promised services? Legal remedies may be available under Australian law even if the agreement does not make any provision for a refund or other remedies for non-performance. For example, the parent may have remedies of specific performance (require the school to place the prospective student on the waitlist, or specifically consider for admission if there are more places than those given to those meeting the exceptions) or damages for breach of the agreement (return of the fee) under Australian law (see paragraph F13 and F15).

The following sets out alternative solutions depending on whether the school concludes that the contract is enforceable or not.

FAQ Scenario A: The contract is enforceable and within the scope of AASB 15

What are the performance obligations?

Applying AASB 15 paragraphs 22-30 and F20-F27, in the above fact pattern the school concludes that there is one sufficiently specific performance obligation in the agreement, which is the promise to add the prospective student to the waiting list.

As the decision about enrolment remains at the discretion of the school, the school notes that it does not promise to consider each entry on the waitlist for possible enrolment and does not promise to consider each entry on the waitlist in a specified order, other than anyone in an “exception” criterion is considered first. It also does not promise to notify the prospective student of the outcome of the assessment for acceptance (unless successful). The school observes that these promises are not sufficiently specific to be able to determine when the obligation would be satisfied, and hence do not pass the necessary condition to be a performance obligation (see paragraph F20).

The school notes that the terms of the agreement do not relate to any future tuition, as the school has not made a promise to transfer future tuition services, and could not be compelled to do so under the agreement, as it does not promise (explicitly or implicitly) a place for future tuition (see paragraph B49).



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When is the performance obligation satisfied?

Applying AASB 15 paragraphs 31-38, the school determines that the single performance obligation to enter a prospective student on the waitlist is not transferred over time in accordance with any of the criteria in AASB 15 paragraph 35, and is therefore satisfied at a point in time in accordance with AASB 15 paragraph 38 when the prospective student is added to the waitlist. The revenue is therefore recognised at that point as per AASB 15 paragraph 31.

FAQ Scenario B: The contract is not enforceable and within the scope of AASB 1058

In accordance with AASB 15 paragraph Aus9.1, if the arrangement is not enforceable, the school considers the requirements of AASB 1058.

The school applies AASB 1058 paragraph 3 and 9, and concludes that there are no related amounts to recognise in accordance with other Australian Accounting Standards. The school also considers paragraph 3, 15-17 and concludes that the transfer is not to enable the school to acquire or construct a recognisable non-financial asset to be controlled by the school.

The school therefore concludes that, in accordance with AASB 1058 paragraph 10, the application fee is recognised immediately as income in profit or loss.

Staff observation

The scenarios above only provide one illustration of such type of fees. An entity would need to apply judgment when assessing its agreement to understand whether the requirements of the parties in the agreement are sufficiently specific that to be enforceable by the customer. The entity would also need to consider whether there is a single sufficiently specific performance obligation or, multiple sufficiently specific performance obligations.

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

12. How does an NFP school account for non-refundable upfront fees that it charges when an offer of enrolment is accepted by a prospective student (i.e. when the student is accepted from the waiting list)?

Background

In this scenario, an NFP private school offers enrolment for tuition to a prospective student. Upon accepting an offer of enrolment, the prospective student must pay an upfront fee (sometimes referred to as an 'acceptance fee', 'entry fee' or 'enrolment fee'). The enrolment form sets out the following terms and conditions relevant to the fee:

- upon payment of the fee, future tuition is guaranteed for the prospective student to commence in the agreed-upon year and for the period of the tuition contract, being 2 years;
- the fee is non-refundable and non-transferable; and
- the fee is not offset against any future tuition fees.

Analysis

Is the contract within the scope of AASB 15 *Revenue from Contracts with Customers*?

The school applies AASB 15 paragraphs 9-21 and F5-F19 and concludes that the agreement is within the scope of AASB 15, as:

- there is a customer – the parent – who has promised consideration in exchange for future tuition (an ordinary activity of the school) to be provided to a specified child (see AASB 15 paragraphs 6, F6-F7);
- a contract exists, as:
 - there is a written agreement (see paragraphs 10, F8-F9); and
 - the agreement creates enforceable rights and obligations for the prospective student to receive tuition in the agreed-upon years. Despite the fee being non-refundable, the parent would be able to either enforce the agreement or be provided a remedy under Australia law if the school did not provide tuition in the agreed-upon years (see AASB 15 paragraphs 10, F10-F18).

What are the performance obligations in the contract, and is the non-refundable upfront fee one of them?

The school considers the guidance on accounting for non-refundable fees in AASB 15 paragraphs B48-B51 and refers to paragraphs 22-30 and F20-F27 to assess whether the upfront fee relates to the transfer of a good or service separate to the provision of tuition in the future.



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The school notes that performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer (see AASB 15 paragraph 25). The non-refundable fee might cover internal administrative activities which enable the school to provide future tuition services to the student, but these activities do not transfer a promised good or service to the prospective student separate from the provision of future tuition and are therefore not a separate performance obligation (see paragraph B49).³

The school therefore concludes that the non-refundable upfront fee does not represent a distinct performance obligation (see paragraph 25), but is instead an advance payment for future tuition services, and is recognised as revenue as the future tuition services are provided over the 2 year contract (see paragraphs 30 and B49).

Staff observation

The question of whether non-refundable upfront fees relate to a separate performance obligation, distinct from the provision of future tuition services depends on the facts and circumstances of each contract. For example, unlike the example above, some upfront non-refundable enrolment fees might relate to the transfer of a good or service to a customer, such as the provision of uniforms or other equipment that the prospective student controls upon receipt.

In such a case, the school will need to evaluate whether the good or services provided to the prospective student are distinct from the provision of the tuition services (see paragraphs 22-30), and, if distinct, account for these as separate performance obligations.

Where the period of the tuition contract is under the control of the parent, rather than a set time, the school should consider paragraphs 10-12 to determine the appropriate duration of the contract.

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³ These types of examples are also very common in the for-profit sector. See, for example, illustrative example 53 of the IFRS 15 examples ([click here](#)), or the recent agenda decision of the IFRS Interpretations Committee addressing *Assessment of Promised Goods or Services* ([IFRIC Update January 2019](#)).

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

Section 4: Accounting for Concessionary Loans

13. How does an NFP entity account for a concessionary loan?

Not-for-profit (NFP) entities may receive long-term loans, for example, from government entities, on below-market terms (with interest and/or principal concessions). Concessionary loans are within the scope of AASB 9 *Financial Instruments* and, if they are provided to an NFP entity principally to enable it to further its objectives, also within the scope of AASB 1058 *Income of Not-for-Profit Entities*. An NFP entity may apply AASB 9 first or AASB 1058 first in accounting for the concessionary loan. Both approaches should result in the same accounting outcome.

In substance, both AASB 9 and AASB 1058 are applied together, since Australian Accounting Standards do not specify a sequence for applying the Standards. However, to demonstrate that an apparent application sequence does not affect the accounting outcome, this FAQ addresses the accounting for concessional loans as if AASB 9 is applied first (approach 1) and also as if AASB 1058 is applied first (approach 2).

Approach 1 – apply AASB 9 first

AASB 9 (paragraph B5.1.1) requires an entity to determine whether a loan arrangement has one or more components in addition to the financial liability and, if so, to separately account for these other components.

Therefore, NFP entities receiving a concessionary loan need to analyse the substance of the arrangement to determine whether part of the consideration received is for something other than the financial liability (such as a contribution by the lender as an owner of the entity or a donation by the lender), in addition to the part of the consideration received that relates to the financial liability to repay the loan.

For example, if an NFP entity determines that part of the consideration received gives rise to an asset acquired for significantly less than fair value principally to enable the entity to further its objectives, the entity accounts for that part of the consideration received (the “beneficial component”) in accordance with AASB 1058. At the same time, the entity recognises a financial liability separately in accordance with AASB 9 (paragraph B5.1.1) as described above.

If there is no further ‘related amount’ to recognise under paragraph 9 of AASB 1058 in relation to the beneficial component (e.g. there is no owner’s contribution or some other liability), the additional consideration received is recognised as income upon initial recognition of the asset.

Approach 2 – apply AASB 1058 first

Alternatively, the NFP entity may consider the requirements of AASB 1058 first. Where the entity determines that part of the consideration received under the concessional loan arrangement gives rise to an asset acquired for significantly less than fair value principally to enable the entity to further its objectives (the “beneficial component” in this context), the entity applies AASB 1058 (paragraphs 8-10) to recognise income upon initial recognition of the asset received (including the beneficial component), subject to the recognition of any related amounts.

When assessing the related amounts under AASB 1058 (paragraph 9), the entity applies AASB 9 (paragraph B5.1.1) to separately account for the other components of the concessional loan arrangement:

- recognise and measure the financial liability component of the transaction at fair value in accordance with paragraph B5.1.1; and



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- account for any additional components in accordance with AASB 1058 (paragraph 9) and any other relevant Australian Accounting Standards.

If the financial liability is the only related amount to recognise under paragraph 9 of AASB 1058 in relation to the asset recognised (e.g. there is no owner's contribution or some other liability), the excess of the loan proceeds (the consideration received) over the fair value of the financial liability recognised in accordance with AASB 9 is recognised as income upon initial recognition of the asset.

Same accounting outcome under the two approaches

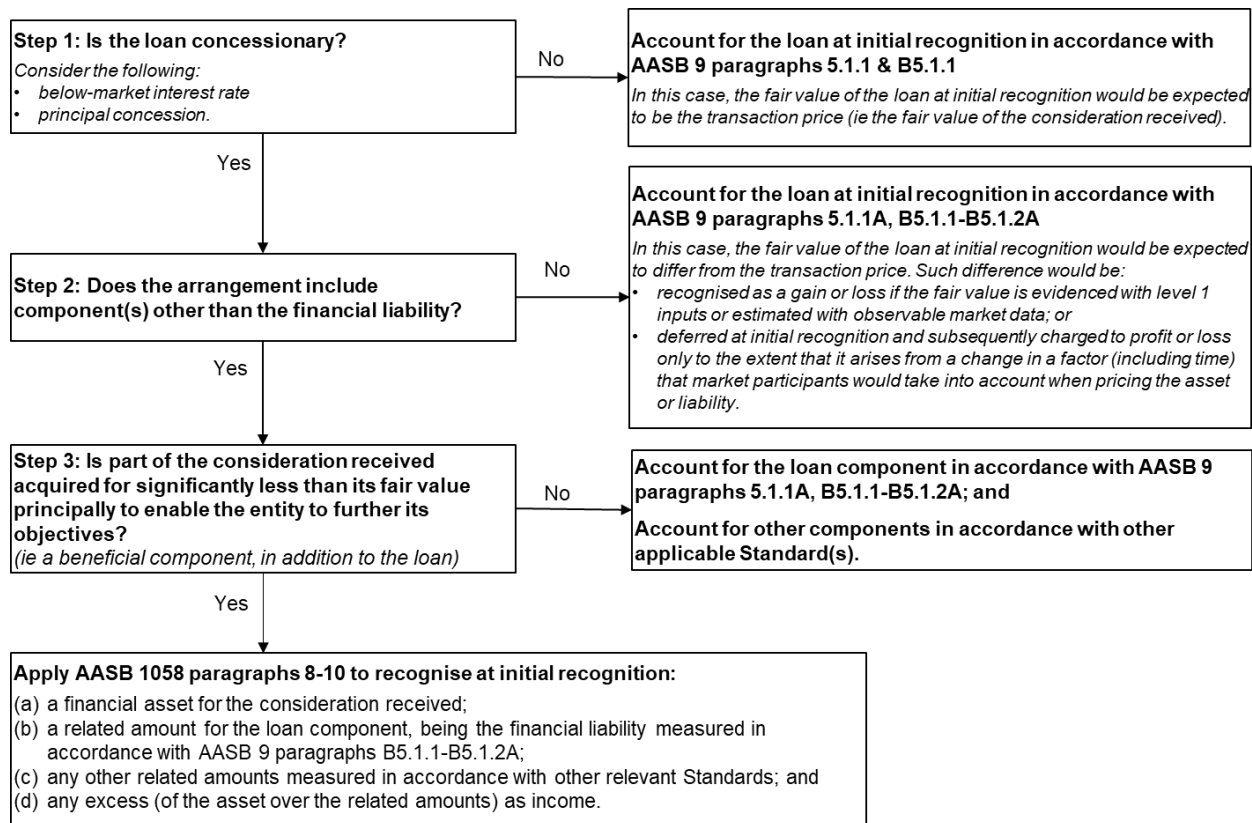
The two approaches described above give the same accounting outcome. Whichever Standard is the apparent starting point, the other Standard is also applied. AASB 9, if that is the apparent starting point, requires separate accounting for the various components of a concessionary loan, including applying AASB 1058. AASB 1058, if that is the apparent starting point, requires the entity to account for related amounts in accordance with other Standards, such as AASB 9.

As a result, under both of these approaches, following the application of AASB 9 (paragraph B5.1.1) and AASB 1058 (paragraph 9), entities would account for any difference between the transaction price of the financial liability (i.e. the part of the consideration received that relates to the financial liability to repay the loan) and the fair value of the loan (the financial liability) in accordance with AASB 9 (paragraph B5.1.2A).

As noted in paragraph BC88 of the Basis for Conclusions to AASB 1058, the Board concluded that no amendment to AASB 9 was required to address a difference between the transaction price (i.e. the relevant part of the consideration) and the fair value of a financial instrument (such as a financial liability). Such a difference is accounted for under AASB 9 and not under AASB 1058. Paragraph B5.1.2A addresses the accounting for such a difference according to whether the fair value is based on observable or unobservable inputs.

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The following flowchart illustrates the accounting described above.



FAQ Scenario 1 – Interest-free loan to assist the NFP entity to further its objectives

Fact pattern

An NFP entity receives an interest-free loan of \$100,000 from a government agency. The loan is provided principally to enable the entity to further its objectives. The \$100,000 principal is to be repaid at the end of the 5-year term.

The NFP entity has not had any borrowings before and estimated the prevailing market rate of interest for a similar loan (term, principal repayment at the end, credit risk, currency, etc.) at 5% pa. At initial recognition, the transaction price of the financial liability for the loan, based on the present value of the future principal repayment discounted at this estimated market interest rate, is \$78,353. The fair value of the financial liability is assumed to equal the transaction price of the liability, in the absence of any contrary evidence.

Accounting treatment

Approach 1 – apply AASB 9 first

The entity could apply AASB 9 first and determine that the loan arrangement includes two components – a financial liability for the loan and a beneficial component – since the fair value of the financial liability is significantly less than the fair value of the total loan proceeds received, principally to enable the NFP entity to further its objectives.



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As a result, the NFP entity applies AASB 9 (paragraph B5.1.1) to recognise:

- the loan component:
 - a financial liability with a fair value of \$78,353, in accordance with AASB 9 (paragraphs 5.1.1 and B5.1.1); and
 - a financial asset of \$78,353, being the fair value of the proceeds received for the loan component (assumed to equal the fair value of the financial liability in the absence of any contrary evidence); and
- the beneficial component:
 - a financial asset of \$21,647 received (the balance of the total loan proceeds), in accordance with AASB 1058 (paragraph 8); and
 - income of \$21,647 immediately in profit or loss, in accordance with AASB 1058 (paragraph 10), in the absence of any other related amount.

Approach 2 – apply AASB 1058 first

Alternatively, the entity could first determine that the fair value of the financial liability is significantly less than the fair value of the total loan proceeds received and apply AASB 1058 (paragraphs 8-10) to recognise:

- a financial asset of \$100,000 for the loan proceeds received, in accordance with AASB 1058 (paragraph 8);
- a financial liability of \$78,353, being a related amount in accordance with AASB 1058 (paragraph 9) and measured at fair value under AASB 9 (paragraphs 5.1.1 and B5.1.1); and
- income of \$21,647 immediately in profit or loss, in accordance with AASB 1058 (paragraph 10), in the absence of any other related amount.

Conclusion

Both approaches result in the same accounting outcome of recognising at initial recognition:

- cash of \$100,000;
- a financial liability of \$78,353; and
- income of \$21,647.

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Section 5: Initial recognition by an 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

This Section is designed to assist an NFP entity in its accounting for non-statutory transactions, such as grants, in relation to which it has partially but not yet fully performed the activities required under the agreement and the associated asset (e.g. grant funding in cash or other asset) has not yet been received.

These types of transactions fall within the scope of paragraph 1(a) of AASB 1058 *Income of Not-for-Profit Entities*, being “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 ...”⁴ Paragraph 2 of AASB 1058 notes the asset acquired might be cash or another type of asset.

Implementation guidance is already provided for some types of transactions within the scope of paragraph 1(a) of AASB 1058. In particular:

- Appendix C of AASB 9 *Financial Instruments* already provides implementation guidance in relation to the initial recognition and measurement of statutory receivables. That Appendix makes it clear that an NFP entity is to recognise and measure upon initial recognition a statutory receivable as if it were a financial asset in accordance with AASB 9 when statutory requirements establish a right for the entity to receive cash or another financial asset. This is on the basis that a statutory receivable is, in substance, similar to a contractual receivable, as the statutory requirements provide the entity with a right to receive cash or another financial asset from another entity; and
- the Illustrative Examples accompanying AASB 1058 illustrate the recognition and measurement of income and related amounts (including assets) arising from transactions where cash is received in advance (e.g. Illustrative Examples 8A and 9).

Accordingly, this Section focuses on transactions referred to in paragraph 1(a) of AASB 1058 for which implementation guidance has not been previously provided. In those circumstances (such as accrued grants) a non-cash asset might exist (for example, a financial asset under AASB 9 representing the contractual right to receive the cash) and should be recognised and appropriately described in the statement of financial position.

The focus of this Section is on the initial recognition of this type of asset, although it also addresses some consequential matters relating to the recognition of associated income. Sections 1 to 3 in this document address certain issues relating to the recognition of income by NFPs in greater detail.

4 Accounting for volunteer services, referred to in paragraph 1(b) and associated paragraphs of AASB 1058, are outside the scope of this Section.

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14. In relation to accrued income, when should an NFP entity initially recognise an asset in its statement of financial position, and the associated income in its statement of financial performance?

A transaction, such as a grant transaction, is outside the scope of AASB 15 *Revenue from Contracts with Customers* if it relates to an agreement that is either unenforceable, or enforceable but the promise to transfer a good or service in accordance with the agreement is not sufficiently specific (see paragraph F5 of AASB 15).

In many transactions where the consideration to acquire an asset is significantly less than fair value principally to enable an NFP entity to further its objectives, the recognition of the asset is relatively straight forward. This is because it is clear that the entity controls the transferred asset, for example the entire asset has been received (perhaps even in cash) before the reporting date. As noted above, the accounting for these types of transactions are illustrated in the Illustrative Examples accompanying AASB 1058.

However, in some transactions within the scope of paragraph 1(a) of AASB 1058 it might not be as clear that the NFP entity has a recognisable asset (and therefore also not clear whether it has earned the associated income) by the reporting date. This is particularly the case if the entity has met all the eligibility criteria agreed under the terms of the agreement but only in relation to a proportion of the transaction. The question then arises as to whether an asset representing the right to receive the asset, such as a cash grant (and associated income), should be recognised in full at the outset, on a pro rata or other basis over time as the terms of the agreement are fulfilled, or when all the eligibility criteria are met for the transaction as a whole.

With the exception of volunteer services, paragraph 8 of AASB 1058 requires the entity to apply the requirements of other Australian Accounting Standards (as relevant) in assessing whether an asset that has arisen from a transaction should be recognised and how it should be measured.

Under that paragraph, the entity is required to recognise, depending on the nature of the asset:

- a financial asset (e.g. a receivable) in accordance with AASB 9 when it has a contractual right to receive cash or another financial asset from the grantor; or
- another type of asset in accordance with another Standard, for example AASB 16 *Leases*, AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*, when the transaction gives rise to an asset that is outside the scope of AASB 9.⁵

When assessing whether and when to recognise an asset arising from a transaction within the scope of paragraph 1(a) of AASB 1058 the NFP entity needs to consider all the particular facts and circumstances of the transaction. For example, in assessing whether to recognise a financial asset under AASB 9, the entity needs to assess whether it has a contractual right to receive cash or another financial asset, in other words whether the right arising from an agreement between two or more parties that has clear economic consequences is enforceable by law and the other party has

⁵ Although not explicitly stated in paragraph 8 of AASB 1058, it is conceivable that depending on circumstances an asset might be required to be recognised under paragraphs 10-12 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.



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little, if any, discretion to avoid the transfer of the asset (see paragraph 13 of AASB 132 *Financial Instruments: Presentation*).

The conclusions on whether and when to recognise an asset might be similar to the conclusions in relation to assessments of contracts within the scope of AASB 15 when making the distinction between a 'contract asset' and a 'receivable'. For example, it would not be appropriate for an NFP entity to recognise the equivalent of a contract asset under AASB 15 when the entity has a contractual right to receive the asset (i.e. the entity has satisfied the eligibility criteria and is therefore not subject to performance risk, even if it remains subject to refund risk) because recognition of the equivalent of a contract asset would inappropriately suggest the right to consideration is conditional (see paragraphs BC323 and BC326 of the IASB's Basis for Conclusions to IFRS 15, upon which AASB 15 is based).⁶ However, that would not preclude the NFP entity from recognising another type of asset, such as a financial asset, where it has an unconditional right (even if it is subject to refund risk).

If the NFP entity determines that the criteria for asset recognition have been met (e.g. for a proportion of the transaction), the entity needs to also apply the other requirements of AASB 1058 where pertinent to the facts and circumstances, including:

- paragraph 9, and thereby initially recognise any 'related amounts' (i.e. any corresponding associated credit amounts that should be recognised as contributions by owners, increases in liabilities, decreases in assets, and revenue in accordance with other Australian Accounting Standards); and
- depending on the nature of the transaction giving rise to the asset:
 - if it is a non-capital grant, paragraph 10, and thereby immediately recognise income for any excess of the initial carrying amount of the asset over the related amounts recognised under paragraph 9; or
 - if it is a capital grant (i.e. a grant of a financial asset to enable the NFP entity to acquire or construct a recognisable non-financial asset that is to be controlled by the entity), paragraph 16, and thereby initially recognise a liability for any excess of the initial carrying amount of the financial asset received in the transfer over any related amounts recognised under paragraph 9. The associated income is then recognised (and the liability derecognised) when (or as) the entity satisfies its obligations under the grant (which might be immediately, to the extent the obligations have been satisfied at the time the asset was recognised).

The NFP entity should also consider disclosure requirements under AASB 1058 and AASB 101 *Presentation of Financial Statements* to provide sufficient information that enables users of financial statements to understand the effects of the transactions where consideration is significantly less than the fair value of the asset received principally to enable the entity to further its objectives.

⁶ In relation to the implications of refund obligations, see also paragraph B14 of AASB 1058.



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Illustrations of the principles

The following illustrates the application of the definition and recognition principles described above using two different scenarios – a non-capital grant and a capital grant. They have parallels to, but are less detailed than, Examples 8A and 9 of AASB 1058. The main difference between the Illustrative Examples in AASB 1058 and scenarios 1a and 1b below is that the former illustrate grant scenarios where cash is received in advance whereas the latter illustrate grants where cash is received in arrears. Despite the differences in the relative timing of the receipt of cash, the underlying accounting treatments are consistent.

FAQ Scenario 1a – Non-capital grant

Fact pattern

On 1 April 202X NFP (a charity offering and providing a wide range of traditional and innovative support services to at risk individuals through volunteers) is awarded a grant of \$90,000 to help it meet the increased demand for its services expected to arise from COVID-19 during the remainder of the calendar year.

The agreement is enforceable in accordance with paragraphs F11-F18 of AASB 15 because under the agreement the grantor has the right to take control of NFP's existing COVID-19 oriented resources (including NFP's volunteer contact list, volunteer training manuals and interactive computer programmes) to be used by another service provider for no charge if NFP fails to provide COVID-19 related support services over the next 9 months. However, the agreement does not meet the 'sufficiently specific' criterion described in paragraphs F20-F26 of AASB 15 (including because the number or type of support services such as smartphone apps or counselling sessions, whether marriage, financial, mental health or other, are not specified). Therefore, the agreement falls within the scope of AASB 1058 (and outside the scope of AASB 15).

According to the agreement NFP can claim a pro rata amount of the grant after the end of each quarter. Claims are to be made on a straight-line time-transpired basis unless NFP can demonstrate in any one quarter that another basis can be justified (e.g. because it develops an online support package in one quarter that will be self-sustaining in later quarters). Once a claim is assessed and paid it is non-refundable.

Up to the 30 June 202X reporting date NFP has conducted COVID-19 related counselling sessions and is in the planning stages of developing a smartphone app. It therefore intends to submit a claim of \$30,000 for that quarter, on a simple time-transpired basis. NFP expects the claim to be accepted by the grantor. NFP also expects to continue to provide COVID-19 related support services at least for the remainder of the calendar year.

Question

Should NFP recognise its right to receive \$30,000 as an asset as at 30 June 202X and if so, what is the asset and should NFP recognise associated income at 30 June 202X?



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Accounting treatment

At the time of first entering into the grant agreement no asset (or liability or income) is recognised by NFP because at that point the agreement is equally proportionately unperformed (see paragraph 91 of *Framework for the Preparation and Presentation of Financial Statements*).

NFP applies paragraph 8 of AASB 1058 as at 30 June 202X and determines that under AASB 9 it has a contractual right to receive a portion of the total grant given that it has conducted COVID-19 related support services prior to 30 June 202X (i.e. it recognises a financial asset of \$30,000, described appropriately for example as 'non-capital grants receivable', in its statement of financial position) and has:

- assessed that it has satisfied the eligibility criteria of the grant agreement to the extent of \$30,000 and therefore has a receivable representing its unconditional contractual right to receive cash in the future (paragraph AG4 of AASB 132);⁷ and
- already performed under the contract, i.e. the contract is no longer equally proportionately unperformed.

At the same time NFP applies paragraph 9 of AASB 1058 and determines there is no 'related amount' to be recognised (including revenue under AASB 15). Therefore, in accordance with paragraph 10 of AASB 1058, NFP recognises \$30,000 income in its statement of financial performance for the year ended 30 June 202X.

FAQ Scenario 1b – Capital grant

Fact pattern

On 1 March 202X NFP (a charity that operates community health centres) enters into an enforceable grant agreement to construct a community health centre in a new regional area that it will control during construction and continue to control and operate after completion. The centre is to be fully funded by the grantor to a cost of \$1.2m. Under the agreement NFP has the right to claim for eligible construction expenditure incurred each quarter and will receive the funds once the claim is submitted and the costs assessed by the grantor to be eligible. If NFP fails to complete the construction within 12 months of the agreement being entered into the work in progress must be handed over to the grantor.

The grant agreement is limited to providing a transfer of a financial asset to construct a recognisable non-financial asset that NFP is to control, and meets all the criteria in paragraph 15 of AASB 1058.

At 30 June 202X reporting date, costs of \$400,000 have been incurred by NFP and recognised as an asset 'building – work in progress'. Although NFP has not yet submitted the \$400,000 claim to the grantor, it does not expect it to be rejected. NFP also expects to complete the construction on time.

⁷ This is analogous to what is referred to as an 'unbilled receivable' in paragraph BC325 of IFRS 15.



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Question

Should NFP recognise the right to receive \$400,000 as an asset as at 30 June 202X and if so, what is the asset and should NFP recognise associated income at 30 June 202X?

Accounting treatment

At the time of first entering into the agreement no asset (or liability or income) is recognised because at that point the agreement is equally proportionately unperformed (see paragraph 91 of *Framework for the Preparation and Presentation of Financial Statements*).

In accordance with paragraph F27 of AASB 15 the contract is not accounted for under AASB 15 as it is not a 'contract with a customer' because the community health centre is to be controlled by NFP and therefore there is no transfer of goods or services to an external party. Consequently, NFP applies paragraph 8 of AASB 1058 and determines it has a contractual right to receive a portion of the \$1.2m grant (i.e. under AASB 9, it recognises a financial asset of \$400,000, described appropriately for example as 'capital grant receivable' in its statement of financial position), because NFP has:

- assessed it has satisfied the grant eligibility criteria per the enforceable grant agreement to the extent of the construction work completed to 30 June 202X; and
- already performed under the agreement, i.e. the agreement is no longer equally proportionately unperformed.

At the same time NFP applies paragraph 9 of AASB 1058 and determines there is no 'related amount' to be recognised. Therefore, in accordance with paragraph 16 of AASB 1058, after NFP determined that it has satisfied its obligations under the agreement to the extent of the construction costs of \$400,000 (and therefore there is no liability outstanding as at the reporting date), NFP recognises income of \$400,000 in its statement of financial performance for the year ended 30 June 202X.

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