Income of not-for-profit entities

21 February 2017
Your facilitators are...

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Etienne Gouws

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Julie Locke
Income for not-for-profit entities

- Diversity in practice
- Matching
- Reciprocal / Non-reciprocal
- AASB 15 Revenue from Contracts with Customers
Income for not-for-profit entities

AASB 1058 Income for Not-for-Profit Entities

NFP Implementation Guidance: AASB 15 & AASB 9

Volunteer services

Enforceability

1 January 2019
Agenda

• AASB 1058 *Income for Not-for-Profit Entities*
• Implementation guidance for AASB 15
• Transition
• Implementation considerations and challenges
• Wrap up
AASB 1058 *Income for Not-for-Profit Entities*

- Transactions where consideration is less than fair value of asset principally to enable furthering entity’s NFP objectives
- Volunteer services
- Disclosures
Transactions other than volunteer services

Consideration paid to acquire asset significantly less than fair value of that asset principally to enable entity to further its objectives?

YES

Recognise related amounts in accordance with other Australian accounting standards e.g.:
- contributions by owners (AASB 1004)
- revenue, or a contract liability arising from a contract with a customer (AASB 15)
- lease liability (AASB 16 Leases)
- financial instrument (AASB 9 Financial Instruments) or
- provision (AASB 137 Provisions, Contingent Liabilities and Contingent Assets)

Transfer of a financial asset enable entity to acquire or construct a recognisable non-financial asset controlled by entity?

YES

Recognise income as satisfies obligations under transfer

NO

Recognise excess of initial carrying amount of asset over related amounts as income
Example: grant

Rural Fire Service receives a state government cash grant of $1.5m on 1 April 20X1:

• Required to be spent in accordance with objectives of fire service
• No specific performance obligations
• Is refundable if not spent by 31 December 20X1

Analysis:
• Enforceable? ✓
• Specific performance obligations? ✗

Apply AASB 1058
Example: grant

Rural Fire Service receives a state government cash grant of $1.5m on 1 April 20X1:

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Accounting treatment?

- No related amounts to be recognised
- Recognise excess of initial carrying amount of asset over related amounts as income immediately
Example: endowment

Alumnus transferred $2m cash to University A as an endowment:

- Cash invested at university’s discretion
- Preserve real value of principal
- All income applied towards cash scholarships of $20,000 per student
- If breach terms, required to return real value of endowment

Analysis:

- Enforceable agreement – if breach must return
- Asset acquired for no consideration to further university’s objectives ➔ in scope of AASB 1058
- Controls financial asset within scope of AASB 9
Example: endowment

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• Cash invested at university’s discretion
• Preserve real value of principal
• All income applied towards cash scholarships of $20,000 per student
• If breach terms, required to return real value of endowment

Accounting treatment?
• Must provide cash scholarships at some time in future ➔ any financial liability under AASB 9 incurred?
• No transfer of specific goods or services (paid in cash) ➔ no contract with customer under AASB 15
• No income to recognise under AASB 1058
Example: bequest

University B received a bequest of $1m cash:

• Cash invested at university’s discretion
• Required to provide free accommodation each year for one student for one year for as long as operates as a university
• Any excess income can use at own discretion
• Preserve real value of principal
• If breach terms, required to return real value of bequest

Analysis:

• Enforceable agreement – if breach must return
• Asset acquired for no consideration to further university’s objectives ➔ in scope of AASB 1058
• Controls financial asset within scope of AASB 9
Example: bequest

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- Cash invested at university’s discretion
- Required to provide free accommodation each year for one student for one year for as long as operates as a university
- Any excess income can use at own discretion
- Preserve real value of principal
- If breach terms, required to return real value of bequest

Accounting treatment?

- No related amounts required to be recognised
- Promise of accommodation not sufficiently specific – cannot identify when obligation is fully satisfied
- Income immediately on recognition of financial asset
Charity Q provides counselling services to community. Lease agreement with state government over a building for Charity Q to be able to have facilities to provide counselling services. Rent is $500 pa for 25 years.

**Analysis:**

- Terms are significantly below-market
- Charity Q has a right-of-use asset of the building
- Asset is being used to further the objectives of Charity Q ➔ in scope of AASB 1058
Example: lease

Charity Q provides counselling services to community.
Lease agreement with state government over a building for Charity Q to be able to have facilities to provide counselling services
Rent is $500 pa for 25 years.

**Accounting treatment?**

- Recognise lease liability at present value of minimum lease payments \( \rightarrow \) $500 x 25 x discount rate
- Recognise right-of-use asset at fair value
- Recognise any excess of initial carrying amount of asset over related amounts as income immediately

* Under new leases standard: AASB 16 *Leases*
Acquire or construct a non-financial asset

Transfer of financial asset to acquire or construct a recognisable non-financial asset controlled by entity:

- requires entity to acquire or construct a recognisable non-financial asset to identified specifications

- not required to transfer the non-financial asset (to transferor or other parties)

- enforceable agreement
Example: building

A research organisation is given $5.2m cash to build a purpose specific scientific laboratory to further its research into grains. Terms of agreement are:

- Construct laboratory to government stated specifications
- Return all unspent, uncommitted funding on completion of building

Analysis:

- Cash (financial asset) received to construct a building (recognisable non-financial asset) controlled by entity
- Required to be constructed to identified specifications
- Not required to be transferred to transferor
- Enforceable contract

Please respond to polling question 3 that will appear on your screen shortly.
Example: building

A research organisation is given $5.2m cash to build a purpose specific scientific laboratory to further its research into grains. Terms of agreement are:

- Construct laboratory to government stated specifications
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Accounting treatment:

- Research organisation identifies each obligation relating to receipt of cash grant and allocates entire amount to those obligations – construction of laboratory
- Recognise a liability for obligation under agreement
- Recognise income as it satisfies obligation to construct laboratory
Volunteer services

Entity is a local government, government department, general government sector (GGS) or whole of government?

Yes

Recognise volunteer services if would have been purchased had they not been donated – and fair value can be reliably measured

No

Accounting policy choice

Where reliably measured, can elect to recognise fair value of these services as an asset or expense

Disclosures encouraged to assist users understand contribution that volunteer services provide and any dependence in achieving objectives
AASB 1004 Contributions

Most guidance now deleted and superseded by AASB 1058

Remaining requirements in AASB 1004 relate to:

• parliamentary appropriations to government departments
• restructure of administrative arrangements for other government controlled NFP entities
• contributions by owners and distributions to owners by local governments and whole of government.
Disclosures

- Sufficient to enable users to understand effects of transactions on ability to further objectives
- Non-contractual income arising from statutory requirements
- Transfers to enable acquisition or construction of recognisable non-financial asset
- Restrictions limiting or directing purpose for which resources may be used
- Compliance with parliamentary appropriations and other related authorities for expenditures
Agenda

Implementation guidance for AASB 15
AASB 15 requirements

1. Identify contract with a customer
2. Identify performance obligations
3. Determine transaction price
4. Allocate transaction price
5. Recognise revenue
Step 1: Identifying the contracts with customers

A contract exists if...

- ... collection of consideration is considered probable.
- ... rights to products or services and payment terms can be identified.
- ... it has commercial substance.
- ... it is approved and the parties are committed to their obligations.
Step 1: Identifying the contracts with customers

Implementation guidance

• **Customer** need not receive goods or services directly
• Arrangement entered into under direction of another party may be a contract
• Agreement is enforceable when
  – enforceable through legal or equivalent means and
  – sufficiently specific requirements are included
• Contract may have commercial substance even if entered into for purposes that, in everyday language, would be considered ‘non-commercial as long as it has ‘economic substance’
Step 2: Identify performance obligations

A promise to transfer to the customer a **distinct** good or service

---

**Capabilities of being distinct**
Can customer benefit from promise on its own or together with other resources that are readily available?

**Distinct within context of the contract**
Is it separately identifiable from other promises in contract?
Step 2: Identify performance obligations

**Implementation guidance**

- Sufficiently specific assessed separately for each promise
- Performance obligations do not include activities undertaken to fulfil a contract unless they transfer a good or service
- Specifying services and time period the funds are to be used enable a determination of when services are provided
- Acquittal process may provide evidence of a promise that is sufficiently specific
Example: research grant

CUSTOMER

Save the Turtles Foundation

Foundation set up to protect turtles through research, community action and promoting awareness of threats facing turtles

NFP ENTITY

Research Institute

NFP institute that is part of a marine biology department of University in North Queensland

Arrangement

Research Institute receives grant from Save the Turtles Foundation of $10m to undertake research to track turtle migration along the north east coast of Australia. Terms as follows:

- Grant is for a period of 5 years
- Funds unspent or not spent in accordance with agreement to be returned
- Publication of research data on a public website
- IP arising from research neither transferred nor licensed to Research Institute
- Annual progress reports and a final report
- Right to payment for research completed to date if agreement is terminated by Foundation

Please respond to polling question 4 that will appear on your screen shortly
Example: research grant

Analysis

Enforceable?  Yes

• Enforceable as funds not spent on research are required to be refunded either at end or on termination of agreement

Sufficiently specific?  Yes

• Promise to undertake research sufficiently specific as specifically requires entity to track turtle migration along north east coast of Australia and publish results

Timing?

• Progress towards completion of performance obligation on basis of research data published.
Step 4: Allocating consideration to performance obligations

Allocate based on relative stand-alone selling prices

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<th>Performance obligation 1</th>
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Determine stand-alone selling prices

Observable price

Fair value measurement

Estimate price

Adjusted market assessment approach

Expected cost plus a margin approach

Residual approach only if selling price is highly variable or uncertain
Step 4: Allocating consideration to performance obligations

Implementation guidance

- **Rebuttable presumption**, where dual purpose exists of obtaining goods or services AND helping a NFP entity achieve its objectives, that price **wholly relates** to goods/services
- Presumption **rebutted** where price is **partially refundable** in event NFP entity does not deliver goods or services
- Where presumption rebutted, **disaggregate** transaction price into transfer of promised goods or services under AASB 15 and contribution under AASB 1058
### Example: fundraising dinner

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#### Arrangement

Foundation holds annual fundraising dinner to promote awareness of threats facing turtles and raise funds for ongoing activities. Details as follows:

- Ticket price is $600 per head
- If dinner cancelled, customer receives $300 refund
- Retail price of dinner is $200 per head
- Dinner also provides patrons (customers) with benefit of socialising with a wide range of foundation members (including networking)
- Consideration to which Foundation expects in exchange for transferring promised goods or services (the dinner and networking) to customer is $250
### Example: fundraising dinner

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<td>• Provision of dinner and networking to customer by a set date is a sufficiently specific performance obligation</td>
<td></td>
</tr>
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<table>
<thead>
<tr>
<th>Transaction wholly within AASB 15?</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Presumption whole transaction is within AASB 15 is  <strong>rebutted</strong> as price is partially refundable</td>
<td></td>
</tr>
</tbody>
</table>

Transaction price disaggregated between goods or services of $250 and donation of $350
Agenda

Transition
Effective dates

June Year ends

Effective date
1 July 2019

Annual report
30 June 2020

December Year ends

Effective date
1 January 2019

Annual report
31 December 2019

Comparative period

AASB 1058 and AASB 15 mandatory for NFPs for years beginning 1 January 2019*

*Early adoption permitted (where AASB 15 is early adopted)
Transition options

**AASB 1058**

### Fully Retrospective
- no practical expedients
  - Apply requirements retrospectively to all contracts
  - Restate comparative amounts

### Partial retrospective
- with practical expedients
  - Apply fully retrospective with one or more of following practical expedients:
    - Do not restate completed contracts that begin and end in same year
    - No retrospective application to contracts completed before earliest period presented

### Cumulative effect
  - Assess impact on contracts on date of initial application
  - Make required adjustment to opening retained earnings on date of initial application
  - Do not adjust comparatives
  - Disclose amounts that would have been recognised had AASB 1004 had been applied instead of AASB 1058

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Other exemptions - transition

• Assets acquired for significantly less than fair value measured at cost not required to be remeasured to FV

• For leases with significantly below-market terms and conditions where AASB 1058 is adopted prior to AASB 16:
  ➢ May continue to apply existing accounting treatment to operating leases
  ➢ For finance leases measure the leased asset at fair value at beginning of the earliest period presented (retrospective method) or date of initial application (cumulative effect)
Agenda

Implementation considerations and challenges
### Implementation considerations and challenges

<table>
<thead>
<tr>
<th>Where do we start?</th>
<th>Do we start with AASB 1058 and then apply AASB 15 to applicable elements or can we make a judgement on scope before applying AASB 1058?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Would we arrive at the same answer?</td>
</tr>
<tr>
<td></td>
<td>Why does it matter?</td>
</tr>
<tr>
<td>The credit side – where is this booked and how do we allocate the amount?</td>
<td>Whole amount no longer necessarily booked as income...need to apply other standards to portions of the credit side (!)</td>
</tr>
<tr>
<td></td>
<td>Do current practices support understanding of, and making judgements, in connection other standards?</td>
</tr>
<tr>
<td>How do “constructive obligations” play into recognising a provision?</td>
<td>At which point in time would a “valid expectation” be created on the part of the other parties that the NFP would discharge its responsibilities?</td>
</tr>
<tr>
<td></td>
<td>Are existing frameworks in place to determine timing and amount of provisions to be recognised?</td>
</tr>
<tr>
<td>Volunteer services in public sector</td>
<td>Consistent application of the criteria to determine whether these should be recorded as income and an asset / expense?</td>
</tr>
</tbody>
</table>
### Implementation considerations and challenges

<table>
<thead>
<tr>
<th>If within AASB 15...judgement, judgement, and more judgement</th>
</tr>
</thead>
<tbody>
<tr>
<td>- How do I determine if there is a customer?</td>
</tr>
<tr>
<td>- What represents an enforceable contract, including by legal or “equivalent” means?</td>
</tr>
<tr>
<td>- When is a performance obligation sufficiently specific?</td>
</tr>
<tr>
<td>- How do I allocate consideration between AASB 15 and AASB 1058?</td>
</tr>
<tr>
<td>- How do I allocate the AASB 15 portion to consideration between performance obligations?</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Likely impacts on existing accounting treatments</th>
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<tbody>
<tr>
<td>- Contrary interpretations in connection AASB 1004 may be eliminated...but complexity in applying the “credit side”.</td>
</tr>
<tr>
<td>- More likely than not would have revenue or parts of revenue deferred</td>
</tr>
<tr>
<td>- Consistency of application might be challenging across the sectors!</td>
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<table>
<thead>
<tr>
<th>Transition</th>
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<tbody>
<tr>
<td>- Should I consider early adoption?</td>
</tr>
<tr>
<td>- What should be my transition method?</td>
</tr>
<tr>
<td>- Do I get to apply any of the practical expedients?</td>
</tr>
<tr>
<td>- What will be the impact of AASB 116?</td>
</tr>
<tr>
<td>- What do I do with my peppercorn leases?</td>
</tr>
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</table>
Changes to existing treatment

Under current standards, there is some divergence in practice when a return obligation is attached to a transaction:

**APPROACH 1**

Transaction considered a reciprocal transaction accounted for under AASB 118, with income deferred and recognised when conditions are satisfied.

**APPROACH 2**

Where goods or services are not for benefit of counterparty (i.e. benefits community at large) considered a non-reciprocal transaction under AASB 1004. Income recognised when asset is recognised upfront. Liability recognised if it becomes probable income will be returned.

**Under AASB 1058**

Likely deferral of income until such time as required activities have been undertaken – the “credit” side would likely be deferred under either AASB 15 or under AASB 9 / AASB 137 or equivalent standard. Treatment will be closer to existing treatment under Approach 1.

...however...

Transactions with return obligations, currently accounted for under Approach 1 may have performance obligations that are not “sufficiently specific”, then the income associated with those performance obligations will be recognised immediately under AASB 1058.
Use of a common example to illustrate

**Background facts and circumstances**

- NFP is entitled to a grant, with a return obligation
- Grant agreement specifies activities that need to be undertaken during a specified period of 12 months, including appointment of a project director
- Activities will benefit wider population
- NFP has a charter which aligns with activities stipulated in grant agreement
- No contractual requirements to apply grant in any particular manner

**Matters to consider**

- Is grant in the scope of AASB 1058? Can we argue the fair value of cash is higher than fair value of the activities to be undertaken?
- Assuming yes – do we have to recognise contract liabilities or provisions or anything else? We need to work out whether we apply AASB 9; AASB 137; or AASB 15.
- In determining whether AASB 15 applies, do we think performance obligations are sufficiently specific to allow identification of when performance obligations have been satisfied?
- Do we think that NFP’s charter creates a valid expectation of how funds will be applied…is there a constructive obligation to be recognised here?
- Are there different outcomes (timing of recognising revenue) depending on how we have answered questions above?
Implementing the new guidance

1. Identify different types of arrangements
2. Review contracts and assess against AASB 1058 criteria
3. Document judgements
4. Consider impact of peppercorn leases
5. Agree positions with auditors
6. Prepare for transition – remember for-profit public sector entities need to apply AASB 15 from 1 January 2018...
Agenda

Wrap up
Reminder of key requirements

- Consideration paid to acquire asset significantly less than fair value of that asset principally to enable entity to further its objectives

- Recognise related amounts in accordance with other Australian accounting standards

- Transfer of a financial asset enable entity to acquire or construct a recognisable non-financial asset controlled by the entity – recognise income as satisfy obligations

- Need enforceability and sufficiently specific performance obligation to apply AASB 15 principles
Acquire or construct a non-financial asset

Transfer of financial asset to acquire or construct a recognisable non-financial asset controlled by entity:

– requires entity to acquire or construct a recognisable non-financial asset to identified specifications

– not required to transfer the non-financial asset (to transferor or other parties)

– enforceable agreement
Example: building

A research organisation is given $5.2m cash to build a purpose specific scientific laboratory to further its research into grains. Terms of agreement are:

• Construct laboratory to government stated specifications
• Return all unspent, uncommitted funding on completion of building

Analysis:

• Cash (financial asset) received to construct a building (recognisable non-financial asset) controlled by entity
• Required to be constructed to identified specifications
• Not required to be transferred to transferor
• Enforceable contract

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Example: building

A research organisation is given $5.2m cash to build a purpose specific scientific laboratory to further its research into grains. Terms of agreement are:

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Accounting treatment:

• Research organisation identifies each obligation relating to receipt of cash grant and allocates entire amount to those obligations – construction of laboratory
• Recognise a liability for obligation under agreement
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Volunteer services

Entity is a local government, government department, general government sector (GGS) or whole of government?

Yes

Recognise volunteer services if would have been purchased had they not been donated – and fair value can be reliably measured

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Accounting policy choice

Where reliably measured, can elect to recognise fair value of these services as an asset or expense

Disclosures encouraged to assist users understand contribution that volunteer services provide and any dependence in achieving objectives
AASB 1004 Contributions

Most guidance now deleted and superseded by AASB 1058

Remaining requirements in AASB 1004 relate to:

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Sufficient to enable users to understand effects of transactions on ability to further objectives

Non-contractual income arising from statutory requirements

Transfers to enable acquisition or construction of recognisable non-financial asset

Restrictions limiting or directing purpose for which resources may be used

Compliance with parliamentary appropriations and other related authorities for expenditures
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Implementation guidance for AASB 15
AASB 15 requirements

1. Identify contract with a customer
2. Identify performance obligations
3. Determine transaction price
4. Allocate transaction price
5. Recognise revenue

Revenue

Step 1
Step 2
Step 3
Step 4
Step 5
Step 1: Identifying the contracts with customers

A contract exists if...

- ... it has commercial substance.
- ... it is approved and the parties are committed to their obligations.
- ... rights to products or services and payment terms can be identified.
- ... collection of consideration is considered probable.
Step 1: Identifying the contracts with customers

Implementation guidance

- **Customer** need not receive goods or services directly
- Arrangement entered into under direction of another party may be a **contract**
- Agreement is **enforceable** when
  - enforceable through legal or equivalent means and
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Step 2: Identify performance obligations

A promise to transfer to the customer a **distinct** good or service

- **Capable of being distinct**
  - Can customer benefit from promise on its own or together with other resources that are readily available?

- **Distinct within context of the contract**
  - Is it separately identifiable from other promises in contract?
Step 2: Identify performance obligations

Implementation guidance

- Sufficiently specific assessed separately for each promise
- Performance obligations do not include activities undertaken to fulfil a contract unless they transfer a good or service
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- Acquittal process may provide evidence of a promise that is sufficiently specific
## Example: research grant

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**Foundation** set up to protect turtles through research, community action and promoting awareness of threats facing turtles

**NFP Institute** that is part of a marine biology department of University in North Queensland

### Arrangement

Research Institute receives grant from Save the Turtles Foundation of $10m to undertake research to track turtle migration along the north east coast of Australia. Terms as follows:

- Grant is for a period of 5 years
- Funds unspent or not spent in accordance with agreement to be returned
- Publication of research data on a public website
- IP arising from research neither transferred nor licensed to Research Institute
- Annual progress reports and a final report
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**Please respond to polling question 4 that will appear on your screen shortly**
Example: research grant

Analysis

Enforceable?  Yes

• Enforceable as funds not spent on research are required to be refunded either at end or on termination of agreement

Sufficiently specific?  Yes

• Promise to undertake research sufficiently specific as specifically requires entity to track turtle migration along north east coast of Australia and publish results

Timing?

• Progress towards completion of performance obligation on basis of research data published.
Step 4: Allocating consideration to performance obligations

Allocate based on relative stand-alone selling prices

Determine stand-alone selling prices

Observable price

Fair value measurement

Performance obligation 1

Performance obligation 2

Performance obligation 3

Estimate price

Adjusted market assessment approach

Expected cost plus a margin approach

Residual approach only if selling price is highly variable or uncertain

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Observable price

Fair value measurement

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• **Rebuttable presumption**, where dual purpose exists of obtaining goods or services AND helping a NFP entity achieve its objectives, that price *wholly relates* to goods/services

• Presumption **rebutted** where price is *partially refundable* in event NFP entity does not deliver goods or services

• Where presumption rebutted, **disaggregate** transaction price into transfer of promised goods or services under AASB 15 and contribution under AASB 1058
## Example: Fundraising Dinner

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### Arrangement

Foundation holds annual fundraising dinner to promote awareness of threats facing turtles and raise funds for ongoing activities. Details as follows:

- Ticket price is $600 per head
- If dinner cancelled, customer receives $300 refund
- Retail price of dinner is $200 per head
- Dinner also provides patrons (customers) with benefit of socialising with a wide range of foundation members (including networking)
- Consideration to which Foundation expects in exchange for transferring promised goods or services (the dinner and networking) to customer is $250
Example: fundraising dinner

**Enforceable?** Yes

- Enforceable contract exists due to return obligation - if dinner is cancelled, customer will receive a partial refund of $300

**Sufficiently specific?** Yes

- Provision of dinner and networking to customer by a set date is a sufficiently specific performance obligation

**Transaction wholly within AASB 15?** No

- Transaction price disaggregated between goods or services of $250 and donation of $350

- Presumption whole transaction is within AASB 15 is *rebutted* as price is partially refundable
Agenda

Transition
Effective dates

June Year ends

- **Effective date**: 1 July 2019
- **Annual report**: 30 June 2020

Comparative period

- 2018
- 2019
- 2020

December Year ends

- **Effective date**: 1 January 2019
- **Annual report**: 31 December 2019

Comparative period

- 2018
- 2019
- 2020

*AASB 1058 and AASB 15 mandatory for NFPs for years beginning 1 January 2019*

*Early adoption permitted (where AASB 15 is early adopted)*
Transition options

**AASB 1058**

<table>
<thead>
<tr>
<th><strong>Fully Retrospective</strong></th>
<th><strong>Partial retrospective</strong></th>
<th><strong>Cumulative effect</strong></th>
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<tbody>
<tr>
<td>no practical expedients</td>
<td>with practical expedients</td>
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- **Apply requirements retrospectively to all contracts**
- **Restate comparative amounts**

- **Apply fully retrospective with one or more of following practical expedients:**
  - Do not restate completed contracts that begin and end in same year
  - No retrospective application to contracts completed before earliest period presented

- **Assess impact on contracts on date of initial application**
- **Make required adjustment to opening retained earnings on date of initial application**
- **Do not adjust comparatives**
- **Disclose amounts that would have been recognised had AASB 1004 had been applied instead of AASB 1058**
Other exemptions - transition

• Assets acquired for significantly less than fair value measured at cost not required to be remeasured to FV

• For leases with significantly below-market terms and conditions where AASB 1058 is adopted prior to AASB 16:
  ➢ May continue to apply existing accounting treatment to operating leases
  ➢ For finance leases measure the leased asset at fair value at beginning of the earliest period presented (retrospective method) or date of initial application (cumulative effect)
Agenda

Implementation considerations and challenges
## Implementation considerations and challenges

### Where do we start?
- Do we start with AASB 1058 and then apply AASB 15 to applicable elements or can we make a judgement on scope before applying AASB 1058?
- Would we arrive at the same answer?
- Why does it matter?

### The credit side – where is this booked and how do we allocate the amount?
- Whole amount no longer necessarily booked as income…need to apply other standards to portions of the credit side (!)
- Do current practices support understanding of, and making judgements, in connection other standards?

### How do “constructive obligations” play into recognising a provision?
- At which point in time would a “valid expectation” be created on the part of the other parties that the NFP would discharge its responsibilities?
- Are existing frameworks in place to determine timing and amount of provisions to be recognised?

### Volunteer services in public sector
- Consistent application of the criteria to determine whether these should be recorded as income and an asset / expense?
Implementation considerations and challenges

If within AASB 15...judgement, judgement, and more judgement

- How do I determine if there is a customer?
- What represents an enforceable contract, including by legal or “equivalent” means?
- When is a performance obligation sufficiently specific?
- How do I allocate consideration between AASB 15 and AASB 1058?
- How do I allocate the AASB 15 portion to consideration between performance obligations?

Likely impacts on existing accounting treatments

- Contrary interpretations in connection AASB 1004 may be eliminated...but complexity in applying the “credit side”.
- More likely than not would have revenue or parts of revenue deferred
- Consistency of application might be challenging across the sectors!

Transition

- Should I consider early adoption?
- What should be my transition method?
- Do I get to apply any of the practical expedients?
- What will be the impact of AASB 116?
- What do I do with my peppercorn leases?
Changes to existing treatment

Under current standards, there is some divergence in practice when a return obligation is attached to a transaction:

**APPROACH 1**

Transaction considered a reciprocal transaction accounted for under AASB 118, with income deferred and recognised when conditions are satisfied.

**APPROACH 2**

Where goods or services are not for benefit of counterparty (i.e. benefits community at large) considered a non-reciprocal transaction under AASB 1004. Income recognised when asset is recognised upfront. Liability recognised if it becomes probable income will be returned.

**Under AASB 1058**

Likely deferral of income until such time as required activities have been undertaken – the “credit” side would likely be deferred under either AASB 15 or under AASB 9 / AASB 137 or equivalent standard. Treatment will be closer to existing treatment under Approach 1.

...however...

Transactions with return obligations, currently accounted for under Approach 1 may have performance obligations that are not “sufficiently specific”, then the income associated with those performance obligations will be recognised immediately under AASB 1058.
Use of a common example to illustrate

**Background facts and circumstances**

- NFP is entitled to a grant, with a return obligation
- Grant agreement specifies activities that need to be undertaken during a specified period of 12 months, including appointment of a project director
- Activities will benefit wider population
- NFP has a charter which aligns with activities stipulated in grant agreement
- No contractual requirements to apply grant in any particular manner

**Matters to consider**

- Is grant in the scope of AASB 1058? Can we argue the fair value of cash is higher than fair value of the activities to be undertaken?
- Assuming yes – do we have to recognise contract liabilities or provisions or anything else? We need to work out whether we apply AASB 9; AASB 137; or AASB 15.
- In determining whether AASB 15 applies, do we think performance obligations are sufficiently specific to allow identification of when performance obligations have been satisfied?
- Do we think that NFP’s charter creates a valid expectation of how funds will be applied…is there a constructive obligation to be recognised here?
- Are there different outcomes (timing of recognising revenue) depending on how we have answered questions above?
Implementing the new guidance

1. Identify different types of arrangements
2. Review contracts and assess against AASB 1058 criteria
3. Document judgements
4. Consider impact of peppercorn leases
5. Agree positions with auditors
6. Prepare for transition – remember for-profit public sector entities need to apply AASB 15 from 1 January 2018...
Agenda

Wrap up
Reminder of key requirements

- Consideration paid to acquire asset significantly less than fair value of that asset principally to enable entity to further its objectives

- Recognise related amounts in accordance with other Australian accounting standards

- Transfer of a financial asset enable entity to acquire or construct a recognisable non-financial asset controlled by the entity – recognise income as satisfy obligations

- Need enforceability and sufficiently specific performance obligation to apply AASB 15 principles