



Australian Government
Department of Finance

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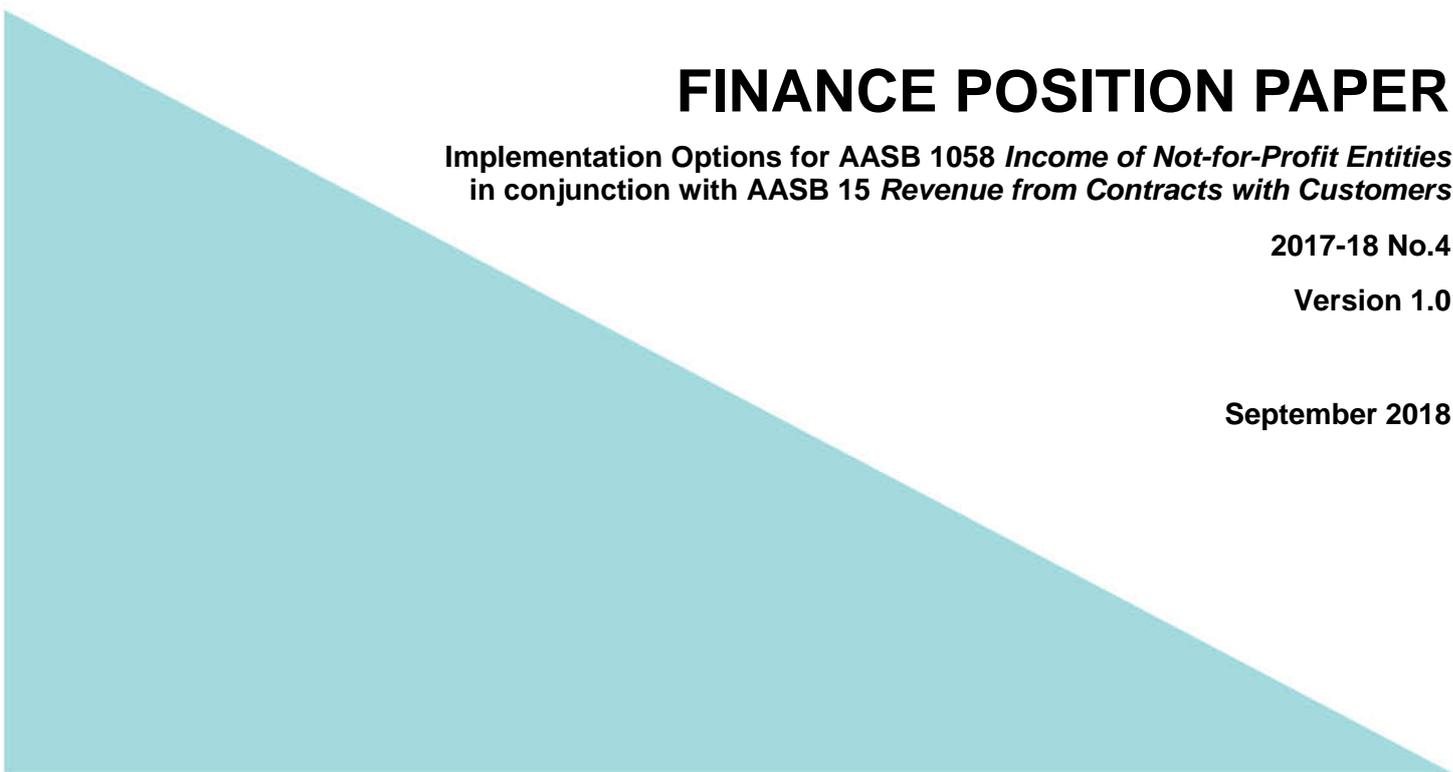
FINANCE POSITION PAPER

**Implementation Options for AASB 1058 *Income of Not-for-Profit Entities*
in conjunction with AASB 15 *Revenue from Contracts with Customers***

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Purpose

Accounting standards issued by the Australian Accounting Standards Board (AASB) apply to annual financial statements for Commonwealth entities and the Australian Government's Consolidated Financial Statements (CFS) under Paragraphs 42(2)(a) and 48(2)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

This paper provides the Department of Finance's (Finance) position on options for the implementation of AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058), in conjunction with AASB 15 *Revenue from Contracts with Customers* (AASB 15), to ensure a consistent approach in applying the relevant standards across all Commonwealth entities.

Agreement on these options will provide clarity to Commonwealth entities and their audit teams on the initial application of these standards in the 2019-20 financial year (FY).

Background

Under AASB 1004 *Contributions* (AASB 1004), all non-reciprocal transfers of assets (including cash) are recognised as income for a Not-for-Profit (NFP) entity. This does not take account of any obligations that may arise for the NFP entity to provide specific goods or services in exchange for that transfer.

AASB 1058 replaces most of the NFP provisions of AASB 1004 by clarifying and simplifying income recognition requirements for these entities.

While AASB 1004 remains in force, its scope has now been reduced to mainly cover issues relevant to parliamentary appropriations, restructure of administrative arrangements, and contributions by owners or distribution to owners in the public sector (i.e. equity contributions).

AASB 15, which replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations, outlines the principles that a For-Profit entity must apply to recognise and measure revenue. The AASB has also released AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*, and has added an appendix to AASB 15 to explain its application to NFP entities.

Scope

AASB 1058 applies to¹:

- “(a) 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; and*
- (b) the receipt of volunteer services.”*

Under AASB 1058, income is recognised as *“the difference between the consideration for an asset and the asset's fair value, after recognising any other related amounts”*^{1,2}.

AASB 15 applies to all contracts with customers with exceptions listed under paragraph 5 including leases, insurance contracts, non-monetary exchanges, and financial instruments. AASB 15 also applies to some enforceable agreements entered into by NFP entities that are not usually considered contractual, such as grants.

¹ AASB 1058, paragraph 12.

² For general requirements for fair value, please refer to RMG 125 *Commonwealth Entities Financial Statements Guide*.

Under AASB 15, income is recognised as “*increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions by equity participants (that is, owners).*”³

For transactions outside of the reduced scope of AASB 1004, NFP entities will need to determine whether a transaction meets AASB 1058 criteria or falls within the definition of a contract with a customer under AASB 15. For income transactions that are not in the scope of AASB 15, AASB 1058 sets out guidance on the relevant income recognition. To assist entities in determining the appropriate accounting standard to apply (AASB 15 or AASB 1058), a Decision Tree is provided in [Appendix B](#).

AASB 15 took effect from 1 January 2018, which is mandatory for For-Profit entities from financial year 2018-19, and a year later (i.e. 2019-20 FY) for NFP entities⁴. AASB 15 requires entities to assess contracts for specific, enforceable performance obligations and where applicable, recognise income if those obligations are satisfied.

This paper reviews the transition options under both AASB 1058 and AASB 15, and the ongoing application of these standards. In compliance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, the selected options will ensure consistent adoption of the relevant accounting standards are selected across NFP Commonwealth entities. Finance’s position is largely based on consideration of the costs for financial statement preparers to implement a particular option compared to its benefits to financial statement users.

Relevant Accounting Pronouncements

The following documents are relevant:

- AASB 1004 *Contributions* (AASB 1004);
- AASB 111 *Construction Contracts* (Supersedes when AASB 15 applied or operative);
- AASB 118 *Revenue* (Supersedes when AASB 15 applied or operative);
- AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15*;
- AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities* (AASB 2016-7);
- AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* (AASB 9 & AASB 15);
- AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- AASB 10 *Consolidated Financial Statements*;
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
- AASB 13 *Fair Value Measurement* (AASB 13);
- AASB 16 *Leases* (AASB 16 – effective 2019-20 FY);
- AASB 132 *Financial Instruments: Presentation*; and
- Finance Position Paper of Implementation Options for AASB 16 *Leases*.

³ AASB 1058, paragraph 12.

⁴ AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities*.

Transition

Transition Options for Commonwealth Entities

Option 1: Date of initial application (DIA)

Commonwealth NFP entities with a 30 June financial year-end are required to apply AASB 1058 and AASB 15 from the 2019-20 annual reporting period⁵. This means that these standards will be applied to their monthly financial statements from July 2019. First use of the standards in estimates will be in the 2019-20 Budget.

Noting that the initial adoption of AASB 15 for For-Profit entities is from financial year 2018-19, For-Profit entities may be required, depending on materiality, to provide further information in the 2018-19 supplementary reporting pack (SRP).

To ensure consistency in applying accounting policies across Commonwealth entities, early adoption is **not** permitted for NFP entities.

FINANCE POSITION 1

AASB 1058 and AASB 15 must be adopted by all NFP Commonwealth entities with a 30 June financial year end for the annual reporting periods beginning on or after 1 July 2019. Early adoption is not permitted.

Option 2: Modified retrospective option to be elected and comparatives shall not be restated

NFP entities have two transition options under AASB 1058 and AASB 15:

- full retrospective application – adopt new standards retrospectively in full for the current year and all prior periods as if the new standards had always been applied; or
- partial retrospective application (also known as modified retrospective) – apply new standards only at DIA. *“An entity shall apply this Standard retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application.”*⁶

The full retrospective option is expected to enhance comparability, however, the costs for preparing two sets of information for the year prior to implementation is likely to outweigh the resulting benefit.

Therefore, modified retrospective is the preferred option for entities.

*“If an entity elects to apply this Standard retrospectively in accordance with paragraph C3 (b), the entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.”*⁷

⁵ AASB 2016-7 amends the mandatory effective date (application date) of AASB 15 for NFP entities to 2019-20, instead of 2018-19.

⁶ AASB 1058 & AASB 15, paragraph C3 (b)

^{7,8} AASB 1058, paragraph C6 & AASB 15, paragraph C7

FINANCE POSITION 2

Entities are required to adopt the modified retrospective application on transition. As a consequence, comparative information for the preceding periods shall not be restated.

Option 3: AASB 15 to be applied to all new and uncompleted contracts from the DIA

Further to the modified retrospective transition approach in Option 2, the standard gives entities the option of applying the new standard to all of its contracts or only to those that are not completed.

“If an entity elects to apply this Standard retrospectively in accordance with paragraph C3(b)..... Under this transition method, an entity may elect to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application.”⁸

For consistency, Finance will mandate that the new standard be applied to all new and uncompleted contracts from the date of initial application.

Application of the modified retrospective transition approach (Option 2) will also require the following additional disclosures to explain the nature and effect of the change in accounting policy:

“(a) the amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to AASB 1004 contributions before the change; and

(b) an explanation of the reasons for significant changes identified in C7(a).”⁸

NFP entities are required to disclose the revenue recognition under the old standard for the 2019-20 financial year (i.e. two recognition approaches for one year). For-Profit entities will need to maintain records under the old standard for two financial years (i.e. 2018-19 and 2019-20).

FINANCE POSITION 3

AASB 15 must be applied to all new and uncompleted contracts from the date of initial application.

Option 4: Practical expedients on contract modifications

As the modified retrospective option has been elected on transition under Option 2 above, paragraph C7A of AASB 15 enables entities to use the practical expedient of paragraph C5(c). This allows the effect of contract modifications to be aggregated, rather than accounted for separately, for all of the contract modifications that occur before:

- the beginning of the earliest period presented; or
- the date of initial application.

⁸ AASB 1058 paragraph C7 & AASB 15, paragraph C8

The practical expedient in paragraph C5(c) requires the aggregate effect of all of the modifications to be reflected when:

- (i) identifying the satisfied and unsatisfied performance obligations;
- (ii) determining the transaction price; and
- (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.

To simplify the transition requirements, Finance will mandate that this expedient be applied to all modifications that occur before the date of initial application.

Hindsight may be used to make this assessment.

FINANCE POSITION 4

Entities are required to aggregate the effect of all of the contract modifications that occur before the date of initial application.

Option 5: Volunteer services at fair value

Paragraph 4 of AASB 1058 requires *“certain types of public sector entities shall recognise assets or expenses for volunteer services received if the fair value of those services can be measured reliably and the entity would have purchased those services if they had not been donated.”* This mandatory requirement for measuring volunteer services at fair value, does not significantly change current government reporting, as fair value measurement is currently applied.

Paragraph 4 of AASB 1058 also provides that *“Any not-for-profit entity may elect to recognise volunteer services received if their fair value can be measured reliably irrespective of whether that entity would have purchased those services if not donated.”* The optional application of this approach would require considerable additional effort by entities and likely result in inconsistent treatment. Therefore, Finance will not allow this elective option.

Finance notes that qualitative disclosures in the notes will nevertheless be required.

FINANCE POSITION 5

Entities are required to recognise volunteer services at fair value if those services would have been purchased if not provided voluntarily, and the fair value of those services can be measured reliably.

Appendix A

General Transition Requirements

This section lists the general transition requirements for Commonwealth NFP entities in applying AASB 1058 and AASB 15.

Grants

Certain grants will have their revenue recognition deferred under AASB 15 and AASB 1058, in particular for grants related to the construction or acquisition of non-financial assets that will be controlled by the receiving entity.⁹ The grants received are initially recognised as a financial asset (cash) with a corresponding liability (i.e. obligation to construct a building). The liability will be derecognised once the performance obligation is satisfied (i.e. the construction of the building is completed).¹⁰

Where an entity receives a grant to acquire specific assets which cannot be recognised by other standards (e.g. a research grant to develop an entity's intellectual property, which cannot be recognised as an asset in accordance with AASB 138), the grant shall be recognised as income when funds are obtained.

Peppercorn leases at fair value

Peppercorn leases are leases where the lease payments do not reflect the fair value of the property being leased. In other words, the consideration paid by the lessee is significantly less than the fair value. Currently, peppercorn leases for premises are usually classified as operating leases under AASB 117 *Leases* and expensed as incurred at the amount of the nominal lease payments.

AASB 1058 contains an amendment to the new AASB 16 *Leases* (AASB 16) to require lessees to recognise and measure the peppercorn leases as following:

1. the right-of-use (ROU) asset will be recognised and measured at fair value under AASB 13;
2. a lease liability for the nominal peppercorn payments will be recognised under AASB 16, and
3. the difference between 1 and 2 above will be recognised as an adjustment to the opening balance of retained earnings at the date of initial application (i.e. 1 July 2019).

Accounting for peppercorn leases by lessors will be governed by the lessor provisions of AASB 16, which in most cases will not result in a significant change in accounting treatment from the present arrangements.

Valuations will need to be performed to establish the fair value at transition date for the ROU asset subject to the peppercorn lease. The Basis for Conclusions (BC29(c)) to AASB 1058 notes that:

- fair value is required at initial recognition or transition to measure the ROU asset. **Finance Position Paper for AASB 16 *Leases***¹¹ has also set an requirement for an **ongoing** valuation of ROU assets, please refer to the Paper from Finance website (listed in footnote 13 below) for the further details; and

⁹ AASB 1058, Appendix B15

¹⁰ AASB 1058, Appendix B16

¹¹ <https://www.finance.gov.au/resource-management/presentations-position-papers/>

- valuations do not need to be performed by a professional valuation expert.

Disclosures¹²

Entities shall disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of income and cash flows arising from AASB 1058 and AASB 15. Entities should apply a professional judgement to the level of disclosure, balancing the objective of keeping the financial statements as simple as possible and the objective of sufficient transparency.

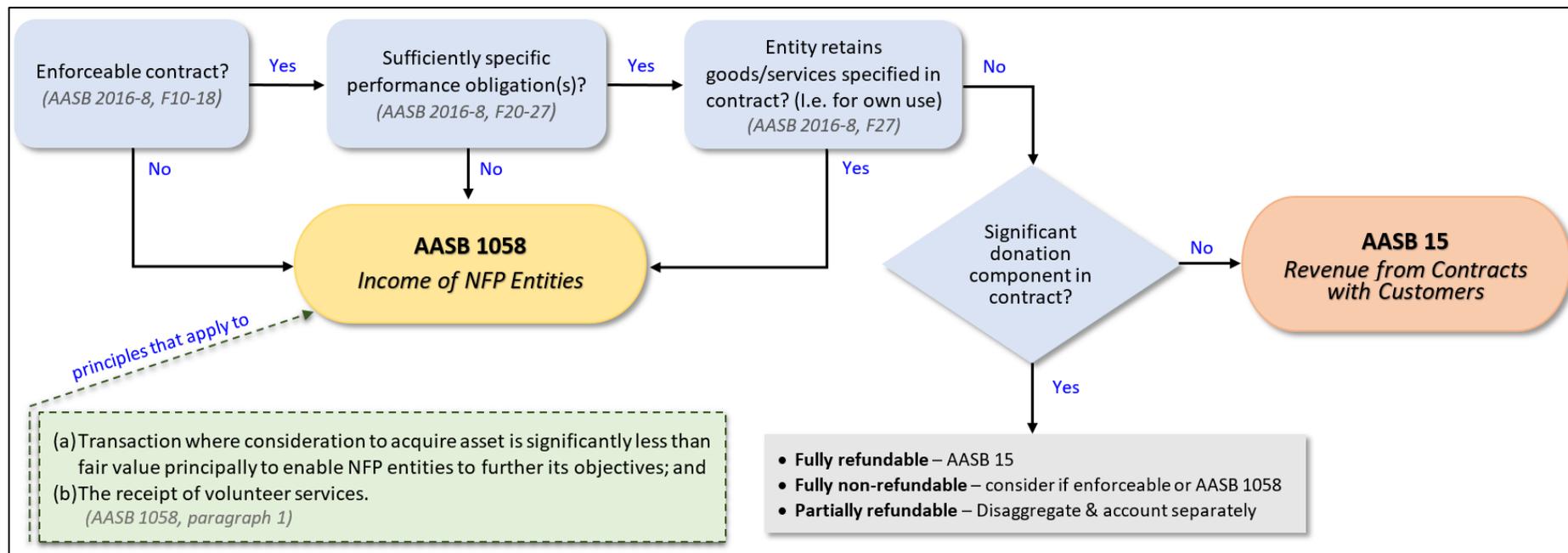
Finance proposes to illustrate some disclosures in its Primary Reporting and Information Management Aid (PRIMA) documents¹³, commencing 2019-20 FY. However, it is noted that many of the disclosures require entity-specific information, so entities will have to adapt illustrative disclosures to their own circumstances.

¹² AASB 1058, paragraphs 23-39

¹³ <https://www.finance.gov.au/resource-management/reporting-accounting/financial-reporting/>

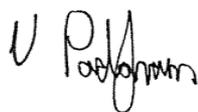
Appendix B

Decision Tree for the Appropriate Revenue Standard to Apply



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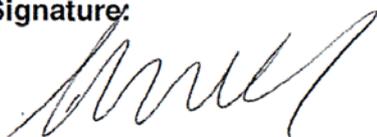
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