



Australian Government

Department of Finance

AASB 1058 Income of NFP Entities & AASB 15 Revenue from Contracts with Customers

Effective 2019-20 (for NFP Entities)

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Overview of AASB 1058 & AASB 15

AASB 1058 *Income of NFP Entities*

- The timing of income recognition will depend on whether a transaction gives rise a performance obligation, liability or contribution by owners
- Applies to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable a NFP to further its objectives (e.g. *cash grants received by an entity, or taxes & rates received by governments to further their objectives*), and receives volunteer services
- Delay recognition of certain type of income, for a better matching of income and expenses compared to current practice under AASB 1004 *Contributions* (AASB 1004 continues to apply to administrative restructures, equity and assumption of liabilities)

AASB 15 *Revenue from Contracts with Customers*

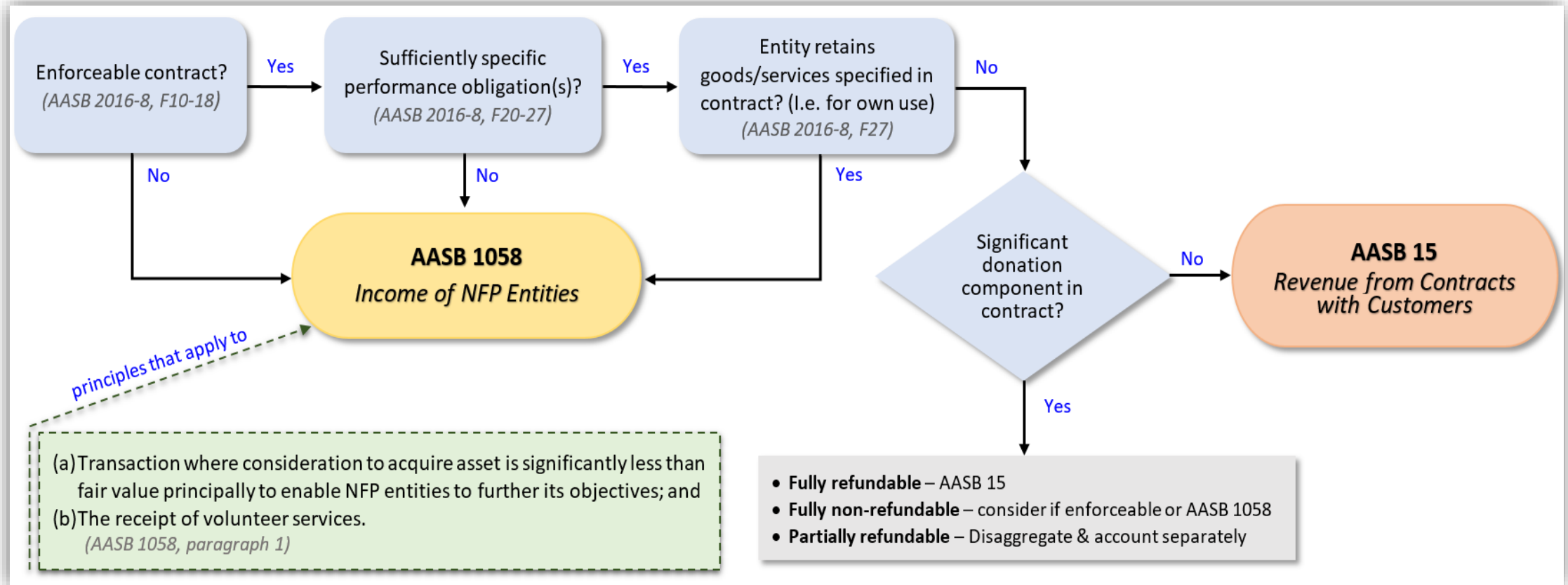
- Replace AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations
- Change revenue recognition from current 'transfer of risks & rewards' model to a 'transfer of control' model
- If the performance obligation are required by an enforceable contract, and they're sufficiently specific to enable the NFP to determine when they have been satisfied
(if these conditions are not met, and if there is nowhere else to post the credit entry (e.g. *financial instruments under AASB 9, lease liabilities under AASB 16, etc.*), AASB 1058 applies)



The decision tree in next slide will assist with choosing the appropriate revenue standard

Decision tree for the appropriate revenue standard to apply

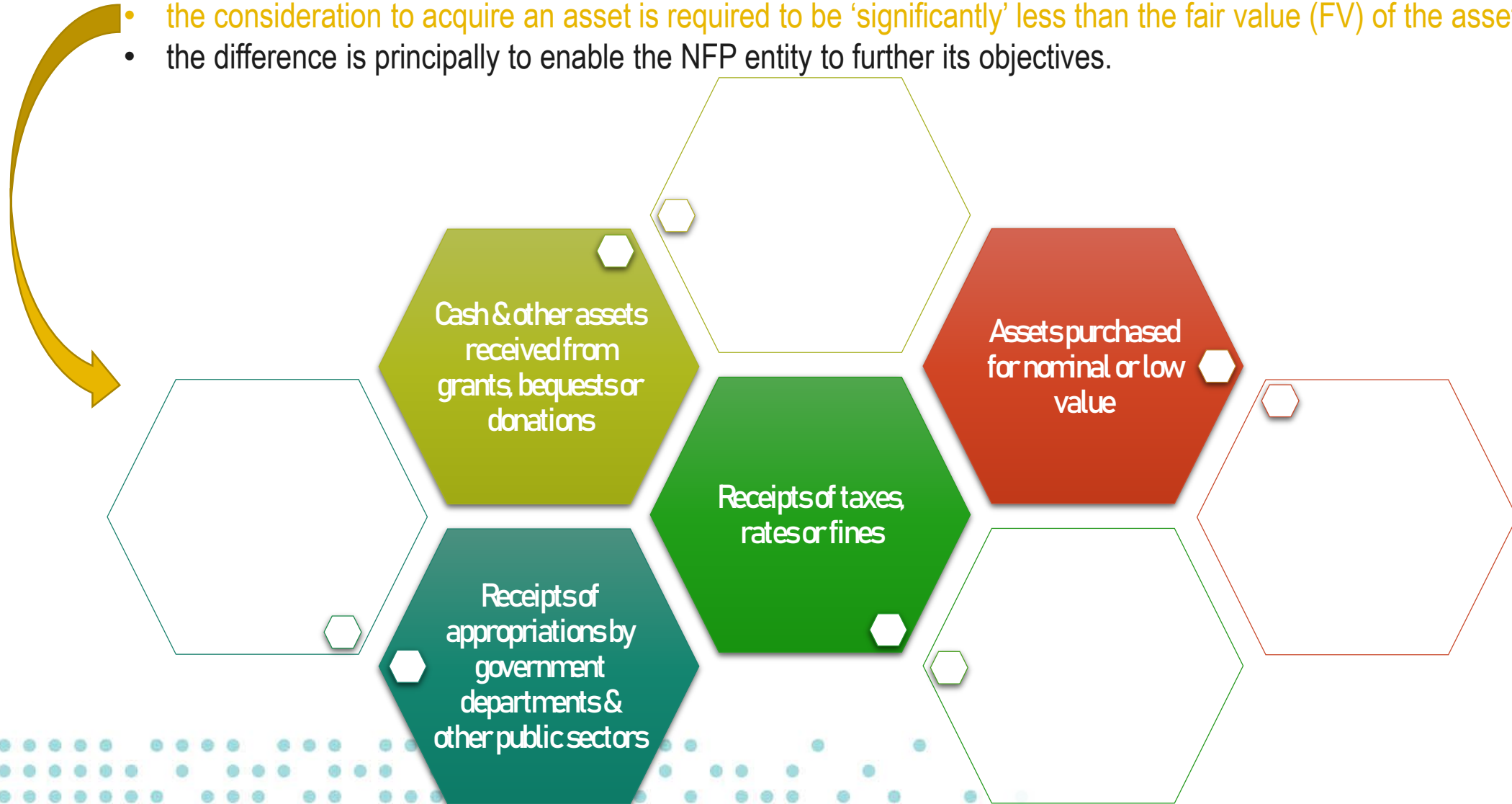
Under the new income recognition model, a NFP first considers whether AASB 15 applies to a transaction or part of a transaction. When AASB 15 does not apply, then considers whether AASB 1058 applies.



AASB 1058 – Examples of Asset less than its FV

For a transaction to fall within the scope of AASB 1058 (excluding volunteer services), it needs to meet both of the following:

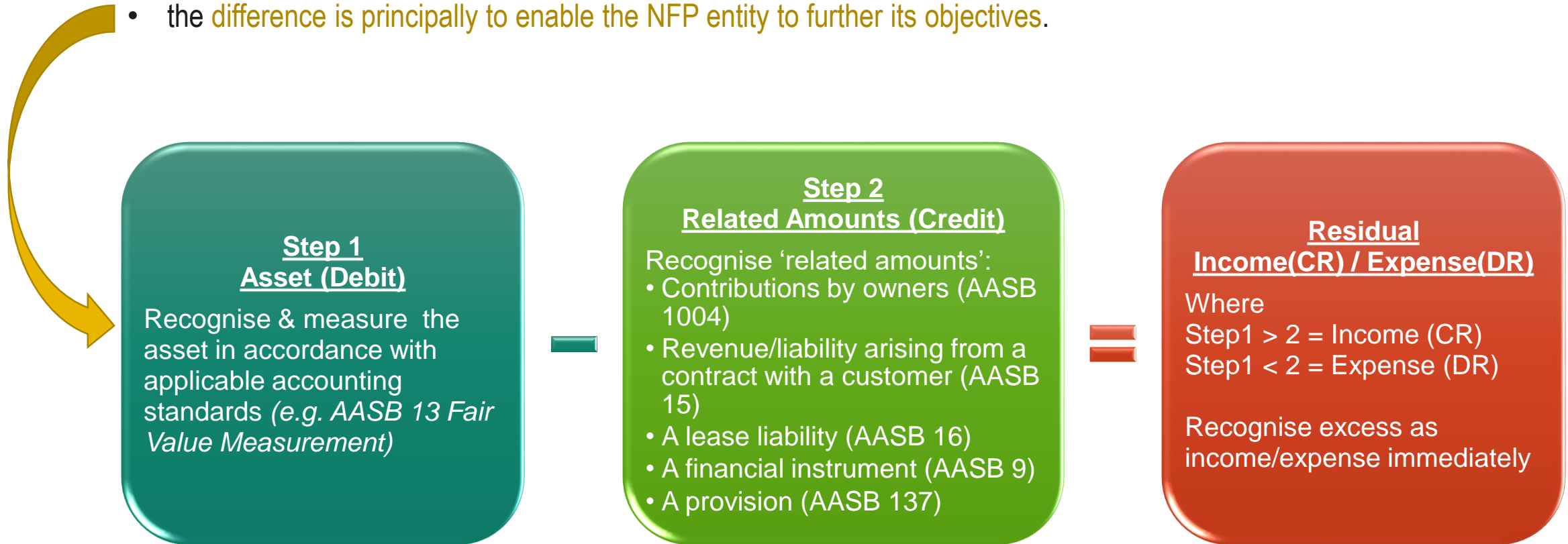
- the consideration to acquire an asset is required to be 'significantly' less than the fair value (FV) of the asset; and
- the difference is principally to enable the NFP entity to further its objectives.



AASB 1058 – Illustration of the difference

For a transaction to fall within the scope of AASB 1058 (excluding volunteer services), it needs to meet both of the following:

- the consideration to acquire an asset is required to be 'significantly' less than the fair value of the asset; and
- the difference is principally to enable the NFP entity to further its objectives.



AASB 1058 – Volunteer Services

AASB 1004

- Under the AASB 1004, government sectors (e.g. Local Government, GGS & WOG) are required to recognise Volunteer Services as income at **FV** if the **FV can be measured reliably** and the **Services would have been purchased if they have not been donated**.

AASB 1058

- Above requirements have been **carried forward** in AASB 1058 in respect of the public sector requirements, virtually un-amended.

Changes

- As a change from AASB 1004, **private sector NFP entities** will now have a policy option to account for donated services at FV if the FV can be reliably measured.




AASB 1058 – Capital Grants

Definition of Capital Grant under AASB 1058

A transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset for its own use.

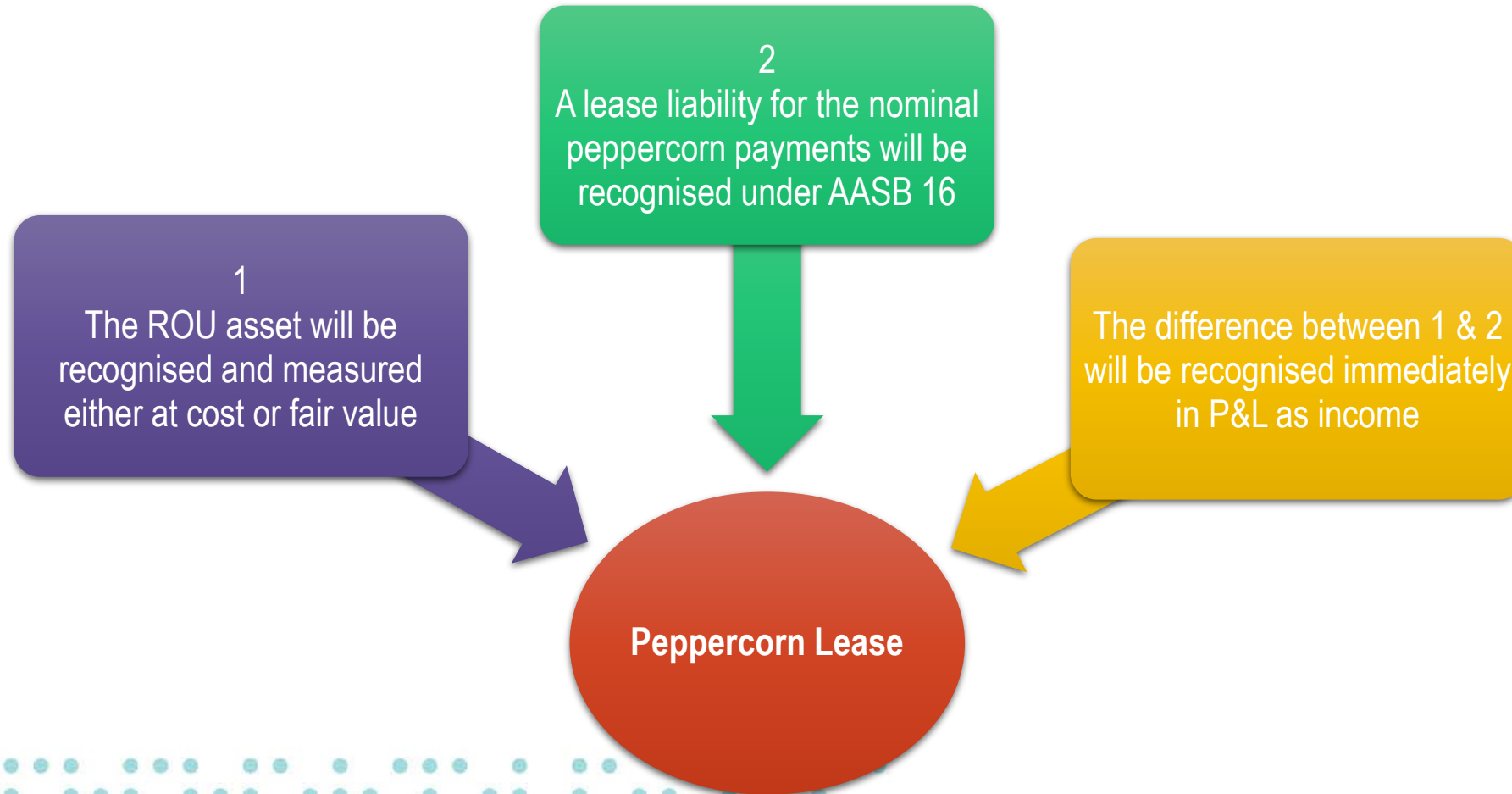
- Obligations to **acquire or construct a non-financial asset** for entity's own use
- does **not require the entity to transfer the non-financial asset to the transferor** or other parties; and
- occurs under an **enforceable agreement**.



AASB 1058 requires the deferral of the income received as capital grants and recognised when you satisfy your performance obligations, which would generally be when you construct the assets the grants were provided for.

AASB 1058 – Peppercorn Lease (Below Marked Value Lease)

AASB 1058 applies to transactions where the consideration to acquire an asset is significantly less than fair value, principally to enable the not-for-profit (NFP) entity to further its objectives.



AASB 1058 – Parliamentary Appropriations

As the nature of parliamentary appropriations can vary across different jurisdictions and for different types of appropriations, entities should note that the extent to which amounts appropriated for a government department's use are recognised as income of a particular reporting period are determined by reference to the characteristics of the appropriation process and the circumstances in which the government department recognises appropriated amounts.

For example, for some government departments that do not gain control of funds appropriated for their use until obligations are incurred or expenditures are made, appropriations recognised as income are in the nature of a recovery of costs incurred for the acquisition of goods and services or for amounts otherwise expended.



Revenue Recognition Steps under the AASB 15

1. Identify the contract(s) with the customer

2. Identify separate performance obligation in the contract

3. Determine the transaction price

4. Allocate the transaction price

5. Recognise revenue when a performance obligation is satisfied



Example – Grant Revenue

A school (NFP) receives a grant (consideration) from government (customer) to provide English language training (performance obligation) to the new immigration (third party beneficiary). The Government will monitor the use of the funding through an acquittal process – if it is not used as intended, it is refunded to the Government (enforceable rights and obligations). The training is to be provided over a 2-year period (sufficiently specific).

The grant is recognised as revenue as the training is delivered (over time) using the acquittal process as a measure of progress towards completion. If the time period or nature of the service to be provided is not specified, it is unlikely that the performance obligation would be sufficiently specific and AASB 15 would not be applied, instead AASB 1058 should be considered.



AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for NFP Entities (effective 1 July 2019)

The amendments to AASB 9 address the initial measurement and recognition of non-contractual receivables (such as taxes, rates and fines) arising from statutory requirements

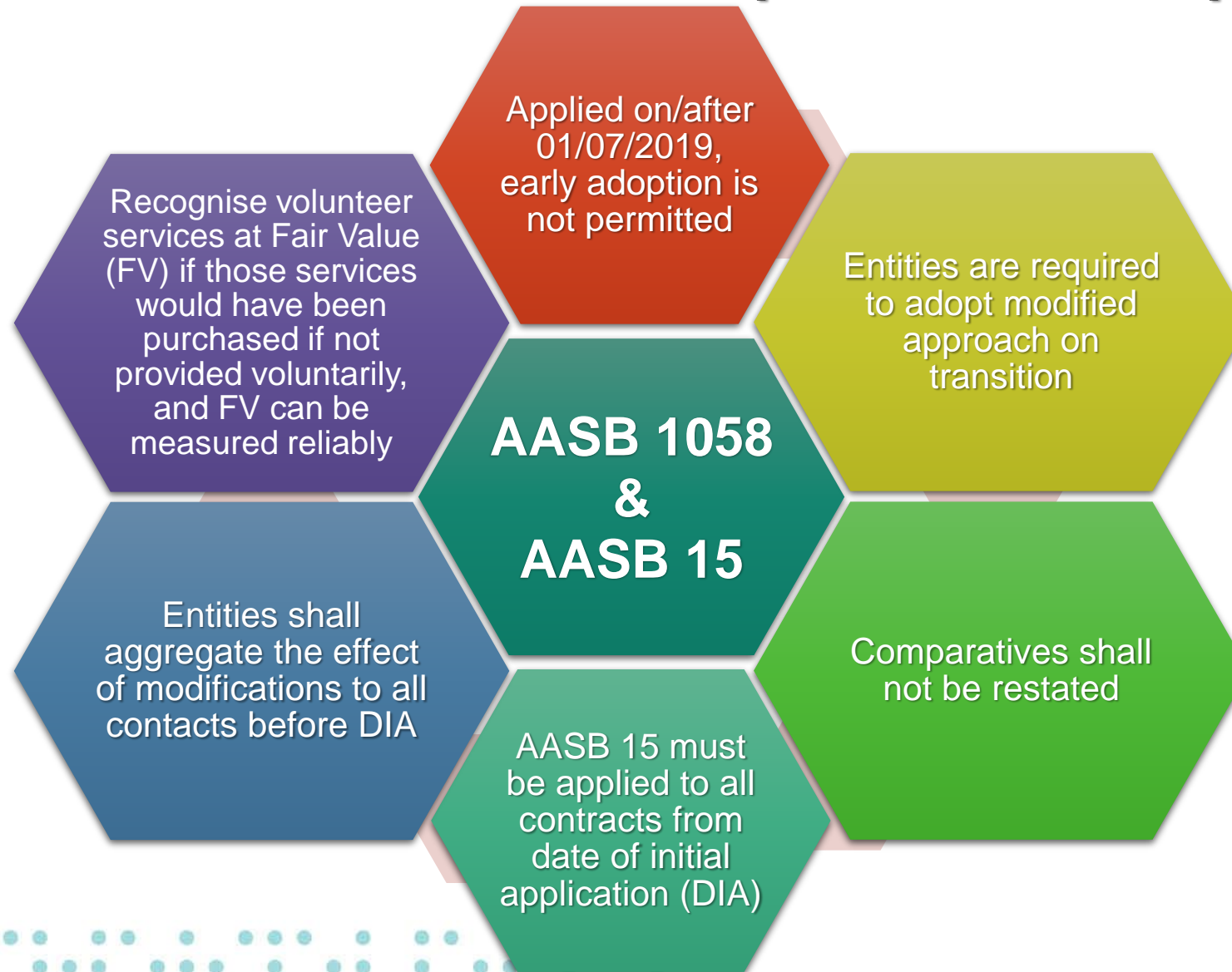
- *The effort includes: recognition at FV, working out what to do if the transaction is not at FV, classification of statutory receivables, expected loss model, etc.*

The amendments to AASB 15 address a number of aspects of accounting for contracts with customers, namely:

- *identifying a contract with a customer;*
- *identifying performance obligations; and*
- *allocating the transaction price to performance obligations.*



Recap: Finance Positions on Implementation Options



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