

Keeping the public sector informed on financial reporting developments
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Income of not-for-profit entities: latest developments

Background

AASB 15 and AASB 1058 became applicable to not-for-profit entities for reporting periods beginning on or after 1 January 2019.

The complexity and the level judgement involved in understanding and applying these standards have resulted in significant practical challenges to the not-for-profit sector, including the public sector.

For example, the determination of sufficiently specific and enforceable performance obligation is often highly judgemental and many public sector entities find this judgement quite challenging in practice given the way in which government grant/funding arrangements are typically structured.

Similarly, there are diverse views as to whether termination for convenience clauses, which are common in many government grant arrangements, give rise to a financial liability.

Acknowledging these implementation challenges, at its September and November 2021 board meetings, AASB agreed to help the sector ahead of its formal post-implementation review of these standards. In this context, AASB:

- issued [AASB Exposure Draft ED 318 Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases](#) (ED 318), which proposes amendments to illustrative examples for income of not-for-profit entities in AASB 15 and AASB 1058
- agreed that AASB staff should provide educational guidance to the sector in the form an educational webinar. AASB staff hosted this webinar on 2 March 2022. A recording of the webinar can be found [here](#) and the slide pack [here](#). Staff are planning to host another webinar on 23 March 2022 due to the high demand. You can register for this webinar [here](#).

In a nutshell

- Not-for-profit entities have faced significant challenges applying the new income recognition requirements in AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058) and AASB 15 *Revenue from Contracts with Customers* (AASB 15).
- Australian Accounting Standards Board (AASB) staff recently hosted an educational webinar to help the sector deal with some of these challenges and reduce divergence in interpretation and application.
- AASB has proposed amendments to some of the illustrative examples in AASB 15 and

Proposals in ED 318

ED 318:

- amends AASB 15 by adding illustrative example 7A to clarify the accounting for up-front fees (such as enrolment fees received by educational institutions, joining fees received by membership bodies or set-up fees charged in service arrangements)
- amends AASB 1058 by amending illustrative example 3 (university scholarship endowment example) to clarify the analysis and rationale for the recognition of a financial liability
- documents AASB's proposed intention to:
 - retain the accounting policy choice to initially measure right-of-use assets arising under concessionary leases at cost on an ongoing basis for not-for-profit private sector entities
 - maintain the 'status quo' for public sector entities until the outcomes of the International Public Sector Accounting Standards Board's current leases project and AASB's public sector fair-value measurement project are known.

The ED is open for comment until 11 March 2022.

Effective date

It is expected that the amendments proposed in ED 318 will apply to annual reporting periods beginning on or after 1 July 2022.

Areas covered in AASB staff's educational webinar

The webinar covered a range of common application issues, including the following areas:

Scope and principles of the standards	<ul style="list-style-type: none"> • Scope of, and interaction between, AASB 15 and AASB 1058 • Principles and key criteria for the application of AASB 15 to transactions in the not-for-profit sector
Sufficiently specific and enforceable criterion	<ul style="list-style-type: none"> • Level of specificity needed to satisfy sufficiently specific criterion and the focus on the level of discretion the recipient has • Examples of enforceability
Documentation to be considered	<ul style="list-style-type: none"> • Meaning of 'contract' within the context of AASB 15 • All surrounding documents (including tender documents) to be considered in determining contract/enforceability
Capital grants	<ul style="list-style-type: none"> • Not all capital grants satisfy the criteria. Only those capital grants that meet AASB 1058.15–17 satisfy the exemption • Consideration of 'identified specifications' is a matter of judgement that is to be addressed as part of the post-implementation review of AASB 1058
Up-front payments	<ul style="list-style-type: none"> • How to account for income from up-front fees, such as enrolment fees, joining fees or establishment fees • Up-front fees often do not result in transfer of a distinct good or service separate from provision of future services to the customer
Grants received in arrears	<ul style="list-style-type: none"> • How to account for grants received in arrears where the grant is within the scope of AASB 1058 • Judgement around whether there is an asset (for example, a receivable) that needs to be recognised
Principal versus agency	<ul style="list-style-type: none"> • Principal versus agent guidance to be considered in circumstances such as National Disability Insurance Scheme-related funding arrangements, consortium grant arrangements and where a national body receives funding for distribution to state bodies
Termination for convenience	<ul style="list-style-type: none"> • November 2020 AASB board paper includes useful references • To be considered as part of upcoming post-implementation review of AASB 1058

Likely impact on the public sector

Given the nature of the proposed changes in ED 318 and the educational nature of AASB staff's webinar, we do not expect these to have a major impact on the public sector.

However, some public sector entities may find that their current income recognition practices do not align well with the guidance provided in the AASB staff webinar.

For example, if an entity currently interprets a 'contract' narrowly as just the formal grant/funding arrangement and does not consider the details in any associated tender documents, the entity may need to revisit its previous assessments around whether its performance obligation is sufficiently specific and enforceable.

This could potentially result in changes to the timing and/or amount of income recognition for a particular period.

As the staff educational webinar simply explains the current requirements (and how they should have always been interpreted), any changes arising as result of the guidance in the staff webinar will need to be accounted for in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Action required

Considering that the June 2022 reporting cycle is only a few months away, public sector entities should now take the time to:

- watch the recording of the AASB staff webinar (or register for the upcoming webinar)
- revisit current income recognition conclusions in light of the AASB staff webinar and assess whether any accounting changes are necessary
- liaise with your VAGO audit team contact as early as possible if you anticipate any potential changes to the current income recognition practice.

Contact information

If you wish to discuss any of the information included in this tech alert, please reach out to your VAGO contact or a member of our financial reporting advisory team at enquiries@audit.vic.gov.au.