Basis for Conclusions on AASB 2016-8

This Basis for Conclusions accompanies, but is not part of, AASB 15. The Basis for Conclusions was originally published with AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in this Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

The need for change

BC2 Prior to the issue of AASB 15 *Revenue from Contracts with Customers*, the recognition and measurement requirements for transactions of not-for-profit entities giving rise to income depended on whether the transaction was reciprocal or non-reciprocal in nature. The accounting for income arising from reciprocal transactions was predominantly addressed in AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The accounting for income arising from non-reciprocal transactions was addressed in AASB 1004 *Contributions*.

BC3 The Board observed determining whether a transaction was reciprocal or non-reciprocal in practice was not always straightforward. Entities found it challenging to determine whether approximately equal value had been provided in exchange to the other party or parties to the transfer, and contended that in many instances the immediate recognition of income in a non-reciprocal transaction did not faithfully represent the underlying financial performance of the entity. Constituents noted that identifying reciprocal transactions was difficult and that diverse interpretations existed, with some entities recognising transactions with return obligations and specified performance outcomes as reciprocal transactions and some not. Constituents were also concerned about the income recognition requirements as applied to grants, appropriations and other transfers of assets made on the condition that the not-for-profit entity deliver goods or services to nominated third parties. Constituents also noted difficulties in discussing financial information with grantors/donors when explaining why they needed additional resources when the financial statements indicated no such need because of the immediate income recognition requirement of AASB 1004. Users noted they did not think the financial statements were reflecting the economic reality of the not-for-profit entities' financial circumstances. Accordingly, the Board decided to undertake a project to conduct a fundamental review of the income recognition requirements applying to not-for-profit entities.

BC4 As a consequence of its policy on transaction neutrality, the Board gave consideration to International Accounting Standards Board developments in the accounting for revenue; finalised with the issue of IFRS 15 *Revenue from Contracts with Customers* in May 2014 and noted it needed to determine what, if any, amendments and guidance would be required to enable not-for-profit entities to apply this Standard. In addition, the Board noted the application of the performance obligation approach to revenue recognition adopted in IFRS 15, using a broader concept of customer had the potential to resolve some of the issues noted with AASB 1004. The Board also had regard to the work of the International Public Sector Accounting Standards Board (IPSASB) in developing its income recognition requirements for 'non-exchange' transactions.

BC5 The Board's proposals with respect to the accounting for income of not-for-profit entities finalised in this Standard were exposed for public comment in April 2015 as part of ED 260 *Income of Not-for-Profit Entities*. In developing ED 260, the Board considered both the feedback received on the immediate predecessor Exposure Draft, ED 180 *Income from Non-Exchange Transactions (Taxes and Transfers)*, and the requirements of AASB 15 *Revenue from Contracts with Customers*. ED 260 proposed both revisions to the income recognition principles in AASB 1004, and development of guidance and illustrative examples to assist not-for-profit entities in implementing AASB 15.

BC6 As part of its due process on this project, the Board held roundtables in Melbourne, Brisbane, Sydney and Canberra, and discussed the proposals at various forums, workshops and discussion groups. In addition, to help ensure it considered implications of its proposals on entities with different objectives (eg charities, local government), the Board conducted several targeted meetings. The Board received comments on its exposed proposals both formally via 34 submissions on the Exposure Draft, and informally via email, meetings with constituents, presentations to various bodies and social media. About half the respondents to the Exposure

Draft explicitly considered that overall, the proposals would result in financial statements that would be useful to users. Other respondents were supportive of the Board's efforts in this area but considered that the proposals did not fully address the concerns noted in paragraph BC3. Following the consultation period, and after considering constituent comments received, the Board decided to proceed with issuing revised principles for the recognition and measurement of income of not-for-profit entities.

BC7 In response to the feedback received, the Board amended or clarified various proposals in the Exposure Draft as part of issuing the final guidance. As part of its processes in this regard, the Board decided to establish a Project Advisory Panel consisting of preparers and advisors to provide input to the revised proposals. The Board considered that, overall, its decisions on this project did not significantly depart from those exposed in a manner that adversely affects entities applying the Standard. However, in order to satisfy itself that sufficient due process had been undertaken, the Board invited public comment on both a discussion draft before the Board at its August 2016 meeting and a fatal flaw draft – publicised via its weekly newsletter.

BC8 The Board decided to finalise its proposals exposed in ED 260 by:

(a) issuing AASB 1058 to address the accounting for income of not-for-profit entities. The Standard establishes principles for not-for-profit entities that apply to 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 to the receipt of volunteer services;

(b) issuing AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* to add implementation guidance to AASB 15 and AASB 9 as well as illustrative examples to AASB 15 to assist not-for-profit entities in applying the Standard;

(c) retaining AASB 1004 *Contributions*, amended to exclude transactions now addressed by AASB 1058; and

(d) issuing AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities* to defer the effective date of AASB 15 for application by not-for-profit entities.

Amendments to AASB 9

Non-contractual receivables arising from statutory requirements

BC9 In ED 260 the Board proposed asset recognition requirements for AASB 1058 that overrode the recognition criteria of other Australian Accounting Standards. Under those proposals entities would have recognised an asset and measured it at fair value in accordance with the proposed requirements and then subsequently measured that asset in accordance with its applicable Standard. In its redeliberations on ED 260 the Board decided not to proceed with the asset recognition requirements it proposed in the ED. Instead, the Board decided to clarify consequential amendments to other Standards that specify the initial measurement requirements for transactions within the scope of AASB 1058.

BC10 As part of its redeliberations the Board observed that entities with statutory receivables, such as from taxes and fines, would not be required to apply AASB 9 to those receivables as they are not financial assets as defined in AASB 132 *Financial Instruments: Presentation* because there is no contract that provides the entity with the right to future cash flows. However, the Board held the view that the initial fair value measurement requirements of AASB 9 are the most appropriate for the types of receivables under consideration as the economic substance of contractual receivables and receivables arising from statutory requirements is similar at initial recognition and therefore decided to require that AASB 9 be applied for the initial measurement of such receivables. The Board also considered that requiring entities to apply AASB 9 for the initial measurement of non-contractual receivables arising from statutory obligations addressed the uncertainty surrounding the appropriate treatment of those receivables.

BC11 Accordingly, the Board decided to amend AASB 9 to require that non-contractual receivables arising from statutory requirements should initially be measured in accordance with that Standard as if those receivables were financial instruments. The Board considered whether the subsequent measurement requirements of AASB 9 should also apply to statutory receivables; however, the Board noted:

(a) constituent feedback indicating the impact of the subsequent measurement requirements of AASB 9 needs further consideration; and

(b) the International Public Sector Accounting Standards Board (IPSASB) had recently embarked on its *Public Sector Specific Financial Instruments* project to consider requirements for public sector financial instruments that are not within the scope of IFRS 9 *Financial Instruments*.

BC12 Accordingly, the Board decided not to require entities to apply the subsequent measurement requirements of AASB 9 to statutory receivables. Instead, the Board decided to monitor the IPSASB's project and consider the subsequent measurement of statutory receivables in a future project.

BC13 The Board noted that applying AASB 9 only for initial recognition of non-contractual statutory receivables could cause confusion and therefore decided to add guidance to accompany AASB 9.

BC14 The Board decided not to address non-contractual payables at this stage, given the scope of the project is related to income of not-for-profit entities. However, the Board decided to consider non-contractual payables at a future date while monitoring the work of the IPSASB on its public sector specific financial instruments project.

Amendments to AASB 15

BC15 The Board conducted a comprehensive review of AASB 15 to determine where additional not-for-profit guidance might be required. As a result, the Board decided to develop guidance for not-for-profit entities including addressing:

(a) how not-for-profit entities should apply terminology used in AASB 15;

(b) when an agreement with another party creates enforceable rights and obligations; and

(c) how to identify when performance obligations exist, requiring a promise to transfer a good or a service to be specified in sufficient detail to be able to determine when the obligation is satisfied.

BC16 In addition to the guidance mentioned above, the Board also decided to make some amendments to the body of AASB 15:

(a) to require that transfers which enable an entity to acquire or construct a non-financial asset to be controlled by the entity be accounted for in accordance with AASB 1058, not AASB 15; and

(b) to clarify that any contract that is not enforceable or does not contain sufficiently specific performance obligations is not within the scope of AASB 15 for not-for-profit entities.

BC17 The Board observed that not-for-profit entities might receive transfers of financial assets that the entity must use to acquire or construct a non-financial asset that the entity will control. The Board noted various views on the requirements that should apply to these transfers, which could result in divergence in practice. The Board considered that these transfers are an in-substance transfer of the underlying non-financial asset the entity must acquire or construct. Accordingly, the Board decided to specify accounting requirements for these transfers in AASB 1058 and to clearly state that these transfers are not within the scope of AASB 15 for not-for-profit entities.

BC18 The Board noted that paragraph 15 of AASB 15 specifies requirements for contracts with customers that do not meet the criteria in paragraph 9 of AASB 15. For the purposes of the guidance the Board developed to accompany AASB 15 the Board noted, in particular, that some of the criteria in paragraph 9 relate to enforceable agreements and sufficiently specific performance obligations. The Board considered that the requirements of paragraph 15 would create ambiguity in the context of AASB 1058 and the additional guidance the Board developed to accompany AASB 15. Consequently, the Board decided to amend AASB 15 to state that any contract of a not-for-profit entity that is not enforceable or does not contain sufficiently specific performance obligations is not within the scope of AASB 15. Moreover, not-for-profit entities would need to consider whether that contract should be accounted for in accordance with AASB 1058. The Board noted that this amendment would help to avoid confusion and divergence in practice.

Terminology

BC19 Not-for-profit entities often receive assets through grants and other transactions, where those transactions:

(a) are not described as contracts, even though they may be part of agreements that specify the goods or services to be transferred by the recipient of the grant;

(b) are not described as transactions with 'customers';

(c) might impose an obligation to transfer goods or services; or

(d) might require a not-for-profit entity to provide benefits to third party beneficiaries when they transfer promised goods or services.

In these circumstances, the party, or parties, that should be regarded as the 'customers' might be unclear.

BC20 The Board considered whether to make modifications to some terms in AASB 15 that would be clearer for not-for-profit entities to apply. In developing ED 260 the Board decided to maintain a transaction-neutral approach to any modifications it might consider to AASB 15. In this context, the Board reviewed the definitions of a ‘customer’ and of a ‘contract’ to determine whether a modification was necessary or whether additional not-for-profit guidance would be sufficient.

BC21 The Board concluded that these aspects do not warrant using different terms other than ‘contract’ and ‘customer’ because additional guidance on how those terms apply in a not-for-profit context would provide sufficient direction for entities while maintaining the Board’s transaction-neutral approach. Accordingly, in ED 260 the Board decided to clarify those terms in a not-for-profit entity context. Feedback on ED 260 indicated broad support for the proposed clarifications, and therefore the Board decided to finalise its proposals in that regard.

Customer

BC22 In a contract with a customer, the customer may direct that goods or services are to be provided to third party beneficiaries (whether employees, other individuals or the community at large) on the customer’s behalf. The Board noted the IASB’s considerations in its Basis for Conclusions to IFRS 15, specifically paragraphs BC54 and BC55 where the IASB argued that the definition of a ‘customer’ could extend beyond the parties specifically identified in a contract, thereby potentially satisfying the definition of a ‘customer’ to be in scope of IFRS 15. The Board noted that the IASB’s considerations highlighted in paragraphs BC54 and BC55 concur with the Board’s views. However, the Board noted that while the IASB expressed this view in its Basis for Conclusions to IFRS 15, not-for-profit entities would need more authoritative guidance.

BC23 Consistent with the IASB’s conclusions, the Board acknowledged that identifying the ‘customer’ in a contract may not always be straightforward for not-for-profit entities. For example, the Board noted that not-for-profit entities routinely receive grants where the grantor requires the entity to provide services to unspecified third parties. In all other respects the grant would be within the scope of AASB 15. In this example, it is unclear whether those unspecified third parties could be considered ‘customers’ in the contract or whether the grantor is the customer.

BC24 The Board clarified that in contracts with customers, the customer is usually the party that has contracted with the entity for those goods or services and promises consideration in exchange for those goods or services, regardless of whether there are third party beneficiaries. Although this principle applies to entities in both the for-profit and not-for-profit sectors, the Board decided to add not-for-profit entity clarification of this principle, in view of:

(a) the likely greater prevalence of third party beneficiaries in contracts entered by not-for-profit entities; and

(a) uncertainty about this issue expressed to the Board in its project outreach activities.

Contract

BC25 The Board noted that a ‘contract’ is defined in AASB 15 as “an agreement between two or more parties that creates enforceable rights and obligations” and that paragraph 10 of AASB 15 states that contracts can be written, oral or implied by an entity’s customary business practices. The Board considered that this definition and guidance are sufficiently broad to address the issues noted in paragraph BC19, and should readily be able to be applied by not-for-profit entities. The Board acknowledged, however, that clarification was necessary for not-for-profit entities in relation to some specific aspects of applying the definition.

BC26 The Board observed that not-for-profit entities might require additional guidance to distinguish sufficiently specific performance obligations for the purposes of AASB 15 and constructive obligations for the purposes of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. In particular, the Board considered a range of statements not-for-profit entities make regarding, for example, their purpose or reason for a particular fundraising. The Board noted that some of these statements could give rise to:

(a) sufficiently specific performance obligations;

(b) constructive obligations; or

(c) the immediate recognition of income.

BC27 The Board decided that the distinguishing characteristics of an arrangement that would result in any of the above outcomes requires further clarification given the broad range of arrangements not-for-profit entities enter into. The additional guidance would assist entities in determining an appropriate accounting treatment that more accurately reflects the effects of the entity’s arrangements on its financial performance.

BC28 Based on feedback to ED 260 indicating uncertainty regarding the determination of enforceability, particularly for documents not specifically identified as contracts, the Board also decided to clarify:

(a) that a ‘contract’, for the purposes of AASB 15, can extend to arrangements such as Memoranda of Understanding, Heads of Agreement and Letters of Intent if those arrangements are enforceable given that not-for-profit entities might not enter arrangements that are explicitly defined as contracts; and

(b) the factors to consider when determining if a contract is enforceable (see paragraphs BC29–BC36).

Enforceable agreements

BC29 The Board noted that obligations can include those that are legal, constructive and economic in nature. AASB 15 states that a contract is an agreement between two or more parties that creates enforceable rights and obligations. The Basis for Conclusions to IFRS 15 paragraph BC32 states that in determining whether a contractual right or obligation is enforceable is a question to be considered within the context of the relevant legal framework (or equivalent framework) that exists to ensure that the parties’ rights and obligations are upheld. In ED 260 the Board decided to propose not-for-profit entity-specific guidance to help entities identify whether an agreement creates enforceable rights and obligations. This is because:

(a) moral obligation and economic compulsion can be seen as the motivation for many of the activities of not-for-profit entities;

(b) some mechanisms for enforcing a not-for-profit entity’s promises to transfer goods or services are unique to entities (typically not-for-profit) in the public sector. For example, Ministerial directives might be employed to compel promised transfers of goods or services by a not-for-profit entity; and

(c) some agreements between different levels of government might rely on a common purpose, without the transferor funding a programme necessarily having the power to enforce the transferee entity’s promises to provide goods or services.

BC30 In developing the Exposure Draft, and in finalising the requirements of this Standard, the Board sought input from legal practitioners on some of the most common characteristics that could make an arrangement enforceable.

BC31 The Board observed that AASB 15 paragraph 10 states that the enforceability of rights and obligations in a contract is a matter of law. In this regard, the Board noted Australian law has a legal mechanism for the resolution of contractual disputes that establish the rights of a separate party, being the judiciary, to oblige the entity to act in a particular way thereby leaving that entity with little, if any, discretion to avoid settling an obligation. For an agreement to be enforceable by equivalent means would require the presence of a mechanism outside of the legal system that establishes the right of a separate party to oblige the entity to act in a particular way thereby leaving that entity with little, if any, discretion to avoid settling an obligation.

BC32 The Board considered that an obligation to return consideration that accompanies a not-for-profit entity’s promise to transfer goods or services would make the agreement enforceable. If a transferor in an agreement presently holds rights to a refund or other compensation in the event of the transferee entity’s non-performance, the transferor might choose to, for convenience, ‘net settle’ by deducting the refund amount from a future transfer. Cancelling future funding to which the entity is presently entitled is a cancellation of a debt owed to the entity and is, in substance, a refund of promised consideration. Therefore, the capacity to cancel future funding to which the entity is presently entitled would make the arrangement enforceable by legal or equivalent means.

BC33 In contrast to the capacity referred to in paragraph BC32, a transferor’s capacity to withhold future funding to which the entity is not presently entitled is substantially different. The ability of a funding provider to withhold future, uncommitted, funding is a source of economic compulsion for the funding recipient. This is because the recipient might be economically compelled to undertake a present activity to secure that future funding. Economic compulsion is not, of itself, a source of enforceability of a promise. In other words, circumstances affecting possible future transactions are not a feature of existing contractual rights and obligations.

BC34 The Board observed that, if economic compulsion were sufficient to make a promise enforceable, a government’s explicit and implicit promises to provide social benefits (such as age pensions, and health and education services) potentially would qualify as enforceable obligations in a wide range of circumstances. Consequently, a government might identify liabilities for benefits for which members of the community have yet to qualify, as the government would be economically compelled to provide the benefits at some point in the future (for example, on an aggregate basis, there is no doubt that of those already born, a significant percentage will survive to qualify for the aged pension and will need to receive various health services). The

Board currently considers that identifying liabilities so broadly would not provide useful information about a government's present financial position, although information about likely future transfers of social benefits would be useful for long-term fiscal sustainability reporting. The Board notes that the IPSASB is presently considering the range of recognition points in its project on accounting for social benefits.

BC35 Feedback to the guidance provided in ED 260 indicated constituents would continue to have difficulty applying the 'enforceable' criterion, despite the proposed additional guidance. In considering the feedback received, the Board significantly expanded the 'enforceability' guidance to include a range of factors that could potentially result in an enforceable arrangement. The Board clarified that a return obligation is merely an indicator of enforceability, and not the only indicator. The Board also noted that where parties to the arrangement need to mutually agree on any changes to the use to which transferred funds are put, that this constitutes enforceability, as neither party has the ability to unilaterally make decisions regarding the assets transferred. The Board noted, however, that the guidance is general in nature and, while it is intended to be helpful in assisting entities assess the enforceability of arrangements, it does not constitute legal advice. Accordingly, the Board noted that, depending on the complexity of the individual facts and circumstances, entities might still need to obtain specific legal advice in regard to their arrangements.

BC36 The Board also sought feedback from its Project Advisory Panel on the revised guidance on enforceability and observed the feedback was generally positive. The Panel considered the guidance was useful within the confines of not providing specific legal advice. Accordingly, the Board decided to finalise its clarifications by including the additional guidance in the final Standard.

Identifying performance obligations

BC37 The Board noted that a performance obligation in IFRS 15 meets the definition of a liability in the AASB *Framework for the Preparation and Presentation of Financial Statements* as it requires an outflow of resources in settlement of an obligation. Accordingly, a key aspect of a performance obligation is that there is a transfer of goods or services to another party that is not at the discretion of the provider. In a not-for-profit context the Board determined that due to the prevalence of transfers of assets to not-for-profit entities that further guidance on identifying performance obligations was warranted.

Sufficiently specific requirements

BC38 Some transfers of assets to not-for-profit entities are provided with no, or minimal, terms and conditions regarding how the transferred assets must be used other than that the assets are used for purposes consistent with the entity's service-delivery objectives as set out in its constitution or enabling legislation (where applicable). For example, a charity may have the discretion to change the goods or services to be provided using donated assets, even when the donations are received in specific-purpose fundraising appeals, to enable the charity to redirect aid to those in greatest need as circumstances change. Some other transfers to not-for-profit entities are provided solely on condition that the funds are to be expended within a specified time period. For these reasons, it can be difficult to distinguish goods or services provided to meet this general requirement from any of the not-for-profit entity's other goods or services provided.

BC39 The circumstances described in paragraph BC38 are much more prevalent in the not-for-profit sector than the for-profit sector, and may raise issues regarding which terms and conditions attached to assets transferred to a not-for-profit entity give rise to performance obligations. The Board decided to propose a principle in ED 260 that to qualify as a performance obligation, a not-for-profit entity's enforceable promise to transfer goods or services must be sufficiently specific to allow the entity to determine when the performance obligation is satisfied, as this indicates the transfer of goods or services is not at the discretion of the provider.

BC40 The Board also decided to propose not-for-profit entity guidance:

(a) noting that applying the 'sufficiently specific' criterion requires judgement; and

(b) identifying particular conditions to consider in determining whether a promise is 'sufficiently specific' to qualify as a performance obligation.

BC41 The Board considered whether to identify particular conditions as essential for treating a promise to transfer a good or a service as 'sufficiently specific'. The Board concluded that:

(a) no particular condition regarding a promise to provide a good or service would ensure the proposed principle in paragraph BC39 is met; and

(b) prescribing condition(s) that are necessary to make a promise 'sufficiently specific' might arbitrarily and unintentionally exclude some performance obligations from being identified as such.

BC42 For example, the Board:

(a) noted that paragraph 26 of AASB 15 states that: "Depending on the contract, promised goods or services may include, but are not limited to … (e) providing a service of standing ready to provide goods or services (for example, unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides"; and

(b) concluded that, if particular aspects of a 'sufficiently specific' promise were to be mandatorily present, a not-for-profit entity's promise to provide a service of standing ready to provide an unspecified good or service might be treated as 'insufficiently specific' to qualify as a performance obligation. This outcome would be inconsistent with the Board's policy of transaction neutrality.

BC43 One of the aspects to consider in assessing whether a promise is 'sufficiently specific' to qualify as a performance obligation is a specified period over which promised goods or services must be transferred. In relation to that aspect, the Board concluded that a condition that a transfer of assets to a not-for-profit entity relates to a particular time period does not, of itself, meet the 'sufficiently specific' criterion – the nature or type of goods or services to be transferred by that entity over that time period must also be specified. This is because time does not require an outflow of resources embodying economic benefits (the definition of a liability in the AASB *Framework for the Preparation and Presentation of Financial Statements* requires an outflow of resources in settlement of the obligation). Rather, the Board considers that such a condition is, in substance, an indication that the transferor does not intend to make similar future transfers to the entity for a defined period of time.

BC44 The Board considered whether its view above is consistent with treating as 'sufficiently specific' a not-for-profit entity's promise to provide a service of standing ready to provide an unspecified good or service. The Board concluded that a promise to provide a service of standing ready to provide an unspecified good or service is substantially different from a condition that a transfer of assets to a not-for-profit entity relates to a particular time period, without any other conditions. This is because:

(a) standing ready to transfer a specified underlying good or service (eg to make a good available for a customer to use as and when the customer decides) is, of itself, a specifically identifiable service transferred to the customer, even if the underlying good or service is sometimes difficult to identify; and

(b) promises to use transferred assets consistently with the entity's general objectives are not promises to transfer a good or a service.

BC45 The Board noted the majority of feedback on ED 260 indicated support for the principle described in paragraph BC39. Some constituents raised concerns about:

(a) linking 'enforceability' with 'sufficiently specific' for grant arrangements could mean many grants do not fall within the scope of AASB 15;

(b) measuring progress toward satisfying a performance obligation would be difficult in many of the arrangements not-for-profit entities enter into;

(c) how to determine whether goods or services are transferred, and if so how to determine when a transfer occurs. For example, when research is undertaken as part of a research grant, it may be unclear whether, or when, or what type of, a transfer of goods or services occurs; and

(d) determining if a contract is within the scope of AASB 15 if the customer does not receive the promised goods or services because it directs the entity to transfer those goods or services to third parties.

BC46 In regard to research grants, the Board noted that such grants typically:

(a) require the recipient to undertake a specified research activity, usually on the basis of a proposal in the grant application;

(b) require the researcher to publicly publish their research findings, either in a government report, a research journal or a similar format;

(c) identify the owner of the intellectual property generated by the research activity; and

(d) may involve the licensing of the intellectual property to the grantor, another entity or the general public.

BC47 The Board observed that the above features of research grants would typically be sufficiently specific but may cause difficulty in measuring progress toward the satisfaction of a performance obligation that is satisfied over time. The Board noted that paragraphs 39–45 of AASB 15 focus on measuring progress toward satisfying a performance obligation with reference to input methods and output methods. The Board observed that either of these methods could be problematic to apply in the context of performing research as required by a research grant. Accordingly, the Board decided to clarify that the undertaking of the research, which may be seen as an activity undertaken on behalf of another party, could constitute a service for the purposes of AASB 15. For example, the Board noted that the transfer of the intellectual property created by the research to the grantor could represent the transfer of a good or service in satisfaction of a performance obligation. The Board also decided to add illustrative examples addressing the application of AASB 15 in the case of research grants, considering issues that might arise when the researcher retains the intellectual property, provides a licence to the grantor or other parties, or provides or publishes research findings, such as the recognition of revenue over time or at a point in time.

BC48 In response to further feedback received on the Exposure Draft, the Board included additional guidance on both 'enforceability' and 'performance obligations'. In particular the Board clarified:

(a) when a grant could be considered as part of an enforceable agreement (such as if a return obligation exists and other circumstances as set out in BC29–BC36) and how to determine whether the requirements of the grant are sufficiently specific;

(b) the effect of time-period conditions on whether a performance obligation exists;

(c) whether a grant made to a 'single purpose' entity to be used for its sole purpose constituted a performance obligation; and

(d) the recipient of the transferred goods or services need not be the customer identified in the contract for the contract to be within the scope of AASB 15.

BC49 Consequently, the Board retained in the final Standard the principle that a performance obligation only exists if it is sufficiently specific to enable the entity to determine when it has satisfied that obligation. In response to the feedback on ED 260 the Board finalised its proposals with the additional guidance noted above.

Allocating the transaction price to performance obligations

BC50 A customer may enter into a contract with a not-for-profit entity with a dual purpose of obtaining goods or services and helping the not-for-profit entity achieve its objectives. The Board considered that, to represent faithfully the substantially different components of such a contract of a not-for-profit entity, in principle it is important that the amount of consideration that is not attributable to the goods or services promised by the entity to its customer should be:

(a) measured and disclosed separately from the revenue arising from transferring a good or service to the customer; and

(b) recognised when the entity recognises the transferred asset(s) – which might be a different time from when the entity transfers the promised good or service to the customer.

BC51 Accordingly, the Board proposed in ED 260 to require a separately identifiable "donation" component in a contract with a customer to be accounted for as income immediately. ED 260 proposed that such a component should be identified in a two-step model:

(a) determine whether the customer intended to make a donation to the entity; and

(b) separately identify the component from the goods or services promised in the contract.

BC52 Feedback on the ED 260 model indicated significant concern in relation to implementing the two-step process. The primary concern raised was that assessing the customer's intent when making the donation would be highly subjective and, for many transactions, such an assessment could not be made due to a lack of evidence. Despite these concerns, the majority of respondents agreed that any "donation" component included in a contract with a customer should be separated from the contract and accounted for in accordance with AASB 1058.

BC53 To address constituent concerns the Board decided to replace the two-step model with a rebuttable presumption. The presumption is that the total transaction price in a contract with a customer is related to the transfer of the promised goods or services. That is, the entire transaction price is presumed to compensate the entity for the goods or services. Where the transaction price is only partially related to the transfer of the promised goods or services the presumption is rebutted and the transaction price split into its component parts.

BC54 The Board noted, however, that requiring entities to rebut the presumption solely based on whether a component of the transaction price is not related to the transfer of promised goods or services might be difficult to apply in practice. The Board considered that such an approach would impose undue cost and effort to require entities to assess the nature of component parts of the transaction price for every contract with a customer. Such a requirement would be particularly difficult in the case of research grants, as discussed in paragraphs BC46 and BC47. To address this concern, the Board decided to require that the presumption be rebutted only when the transaction is partially refundable in the event the entity does not deliver the promised goods or services.

BC55 The Board observed that a partially refundable transaction price usually indicates that some part of the transaction price might not relate to the transfer of the promised goods or services. A non-refundable component of the transaction price might represent a donation or grant to the entity. However, the Board also noted the guidance in paragraphs B48–B51 of AASB 15 which relate to non-refundable upfront fees. That guidance illustrates that in some cases a non-refundable upfront fee could still relate to the transfer of promised goods or services, in which case the non-refundable upfront fee could form part of a performance obligation and be recognised as revenue when the obligation is satisfied. The Board noted that donations very rarely relate to the transfer of promised goods or services and therefore concluded that its guidance attached to AASB 15 does not override the guidance of paragraphs B48–B51.

BC56 The Board noted that the transaction price allocated to a performance obligation should adhere to the allocation objective in paragraph 73 of AASB 15. Moreover, the Board observed the IASB's discussion on this topic as documented in paragraphs BC270–BC273 of IFRS 15, in particular that any stand-alone selling price estimated using the residual approach should be considered for appropriateness. Where the estimated stand-alone selling price is either nil, or a nominal amount, the entity should consider whether such an outcome is appropriate. Similarly, the Board is of the view that a donation element included in a contract with a customer and allocated to a performance obligation using the residual approach should be considered for appropriateness in the context of the allocation objective. If a donation element is allocated to a performance obligation in this manner it might result in the transaction price being inappropriately overestimated.

BC57 The Board concluded the revised approach addressed constituent feedback on the two-step model it proposed in ED 260. In particular, the rebuttable presumption does not require entities to consider the customer's intent when entering into a contract with the entity. To help ensure the rebuttable presumption was practicable, the Board sought feedback on this approach from its Project Advisory Panel. The Panel supported the revised approach, and consequently the Board decided to finalise the rebuttable presumption. The presumption ultimately applies the Board's view exposed in ED 260 that separate components of a contract should be accounted for in accordance with the applicable Standard using the revised guidance.

Materiality

BC58 The Board proposed in ED 260 that an assessment of whether a component not attributable to the goods or services promised by the entity in its contract with a customer is material should be made at a contract level and not reassessed at another unit of account, such as for a portfolio of similar contracts. The Board considered this approach would likely achieve a better balance of costs and benefits than if the materiality of such components were to be assessed at the portfolio level of similar contracts. In its redeliberations, the Board decided to confirm its approach to assessing the materiality of such components within contracts with customers because of the balance between costs and benefits that it provides.

Disclosures

BC59 As part of the Board's review of AASB 15 it also considered whether not-for-profit entities should be exempted from any disclosure requirements in AASB 15. The Board considered those disclosures in the context of the Tiers of Australian Accounting Standards. Specifically, not-for-profit entities (other than the Australian Government and State, Territory and Local Governments) are not required to comply with Tier 1 reporting requirements in their general purpose financial statements in accordance with AASB 1053 *Application of Tiers of Australian Accounting Standards*. Those entities may choose to apply Tier 1 reporting requirements but are otherwise required to only comply with Tier 2 reporting requirements in their general purpose financial statements. The Board observed its policy for developing Tier 2 reporting requirements specifically considers the nature and characteristics of not-for-profit entities. Consequently, the Board decided it had already considered any not-for-profit entity-specific disclosure issues in AASB 15 as part of its process for developing Tier 2 reporting requirements for that Standard. Accordingly, the Board decided not to make any amendments to the disclosure requirements in AASB 15 for not-for-profit entities.

Effective date

BC60 The Board proposed in ED 260 that AASB 1058 and this Standard apply when AASB 15 is applied or operative, which is from 1 January 2018. Constituents raised concerns on that proposal, noting (among others):

(a) general uncertainty in the not-for-profit sector about the accounting requirements that would apply given the Board's work on this project and the various proposals made over the lifetime of the project;

(b) when AASB 1058 is issued not-for-profit entities will need to determine its interaction with AASB 15 and other Australian Accounting Standards. With a proposed effective date of 1 January 2018, not-for-profit entities were concerned that their lead-time to apply the requirements would be significantly less than that provided to for-profit entities to apply AASB 15; and

(c) AASB 1058 permits a greater number of other Australian Accounting Standards to apply to transactions that were previously solely in scope of AASB 1004. Not-for-profit entities commented that they needed further time to understand the interaction of those Standards with their transactions that previously were solely accounted for under AASB 1004.

BC61 The Board agreed with constituents and decided to defer the application date of AASB 1058 by one year to 1 January 2019. In making this decision the Board also considered whether it should defer the application date of AASB 15, including the application guidance in this Standard, by one year for not-for-profit entities. The Board noted that having different application dates for AASB 1058 and AASB 15 would, among other issues:

(a) introduce a period where entities recognise revenue in accordance with AASB 15 and apply AASB 1004 to other transactions outside the scope of AASB 15; and

(b) potentially require entities to re-evaluate their contracts with customers for donation elements when applying AASB 1058 in a later period, thereby lengthening the transition process.

BC62 Consequently, the Board also deferred the application date of AASB 15 to 1 January 2019 for not-for-profit entities. In deferring the application date of AASB 15 the additional guidance for not-for-profit entities will also be deferred. However, the Board decided to retain the ability for entities to apply AASB 15, including the additional guidance for not-for-profit entities in this Standard, and AASB 1058 to an earlier reporting period, so long as they are applied together.

Illustrative examples

BC63 The Board proposed a number of illustrative examples in ED 260 while noting that it was yet to determine where to locate each example; either to accompany AASB 1058 or as part of the guidance to AASB 15. The Board noted it would decide on the location of the respective examples after it had received feedback on the ED.

BC64 When reviewing the feedback on ED 260, the Board noted the majority of concerns were related to the 'enforceability' and 'sufficiently specific' guidance in the ED. Consequently, the Board agreed that the examples accompanying the guidance should illustrate:

(a) enforceability;

(b) the application of the 'sufficiently specific' requirement; and

(c) separating a component not attributable to the goods or services promised by the entity to its customer in a contract with a customer.

BC65 The Board decided to add an example to those accompanying AASB 1058 that illustrates a transaction that includes a contract with a customer. The example is intended to highlight when a transaction could include a contract with a customer and then direct users to the guidance accompanying AASB 15. The Board decided the remaining topics covered by illustrative examples in ED 260 should accompany AASB 1058.

BC66 When the Board developed the requirements in AASB 1058 for transfers of financial assets that enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity, the Board initially did not limit the scope of the requirements only to recognisable assets. Upon redeliberating the issue, the Board decided to limit the scope of the requirements to only those non-financial assets that could be recognised under another Australian Accounting Standard once acquired or constructed.

BC67 As a consequence, the Board noted that some research grants would not necessarily be recognised as income over time as the research was performed. Accordingly, the Board decided to develop further illustrative examples to those proposed in ED 260 to assist entities apply the requirements of AASB 15 to research grants.

BC68 In its redeliberations, the Board identified three scenarios that could apply to research grants, depending on the terms and conditions of the grant, where the entity:

(a) is required to transfer the intellectual property it develops to the grantor;

(b) is required to provide a licence to the grantor for the intellectual property it develops; or

(c) transfers benefits to the grantor that may or may not be immediately consumed.

BC69 The Board decided to illustrate each of the above scenarios as examples, identifying the effect that various terms and conditions could have on whether revenue arising from the grant is recognised over time, or at a point in time when a performance obligation is satisfied.

Comparison with International Public Sector Accounting Standards

BC70 As part of its deliberations, the Board considered the accounting for income of not-for-profit entities specified by the International Public Sector Accounting Standards Board (IPSASB). The Board noted the following International Public Sector Accounting Standards (IPSAS) specified the accounting in this regard:

(a) IPSAS 9 *Revenue from Exchange Transactions*;

(b) IPSAS 11 *Construction Contracts*; and

(c) IPSAS 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)*.

BC71 The Board observed IPSAS 9 and IPSAS 11 are based on the principles of superseded IAS 18 *Revenue* (incorporated into AASB 118 *Revenue*) and IAS 11 *Construction Contracts* (incorporated into AASB 111 *Construction Contracts*), rather than those of IFRS 15 *Revenue from Contracts with Customers* (incorporated into AASB 15). In addition, it noted that IPSAS 23 was issued prior to the issue of IFRS 15. The requirements of IPSAS 23 were therefore not necessarily developed with reference to similar principles to IFRS 15. The Board concluded these IPSASB Standards do not provide an appropriate basis for financial reporting in the Australian environment, particularly because they require different income recognition depending on whether the transaction is an exchange transaction or a non-exchange transaction, and IPSAS 9 and IPSAS 11 adopt a 'risks and rewards' approach that is not consistent with the performance obligation approach in IFRS 15.

BC72 The Board further noted the IPSASB is currently developing proposals for the accounting for non-exchange expenses. The IPSASB is also developing a related project on revenue, which uses IFRS 15 as a starting point and looks at the type of modifications that would be required for IFRS 15 to be suitable for application to a wide range of revenue transactions in the public sector. This may result in revisions to, or a replacement of, the existing IPSASB revenue recognition requirements. The IPSASB expects to complete these projects in 2019. The Board noted that it would consider undertaking a project to review the guidance to AASB 15 following the completion of these projects.