

Basis for Conclusions on AASB 2019-6

This Basis for Conclusions accompanies, but is not part of, AASB 15. The Basis for Conclusions was originally published with AASB 2019-6 Amendments to Australian Accounting Standards – Research Grants and 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.

Research grant examples

BC2 The Board became aware of different interpretations of how paragraph 35(a) of AASB 15 *Revenue from Contracts with Customers* applies in the case of research grants and decided that the analysis in the Illustrative Examples accompanying the Standard did not fully explain how to apply the paragraph. Paragraph 35(a) addresses whether the customer simultaneously receives and consumes the benefits provided by an entity’s performance as the entity performs, as one basis for the entity transferring control of a good or service over time, and therefore satisfying a performance obligation and recognising revenue over time.

BC3 The Board determined that paragraph 35(a) leads to three possible outcomes:

- if it is clear the customer (the donor) simultaneously receives and consumes the research service, paragraph 35(a) is satisfied;
- if it is clear the customer (donor) does not simultaneously receive and consume the research service, paragraph 35(a) is not satisfied; and
- if it is uncertain whether the customer (donor) simultaneously receives and consumes the research service, it is necessary to refer to paragraph B4 to determine whether paragraph 35(a) is satisfied. Paragraph B4 states that, in those circumstances, a performance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfil the remaining performance obligation to the customer.

BC4 Whilst the original conclusions in the Illustrative Examples are appropriate, applying the original analysis to a different fact pattern could lead to an inappropriate application of paragraph 35(a). Accordingly, the Board made changes to Illustrative Examples 4A and 4B by removing the references to re-performance and paragraph B4 in assessing the application of paragraph 35(a), and adding an explanation in Illustrative Example 4B on why in this example it is clear that there is no simultaneous receipt and consumption by the donor of the benefits of the institute’s performance of the research activities.

BC5 The Board noted that some stakeholders did not find the Illustrative Examples useful and were concerned that the fact patterns did not reflect common features of most research agreements. The Board decided to include an additional example to illustrate other key contract features. This additional example would present a greater range of examples in the Illustrative Examples and so assist in better demonstrating how to apply the principles in the Standard.

Issue of Fatal-Flaw Review version

BC6 In October 2019, the Board issued a Fatal-Flaw Review version of the amendments for public comment with a four-week comment period, following extensive consultations with stakeholders. The Board received submissions from nine stakeholders on the Fatal-Flaw Review version. The respondents generally disagreed with the approach proposed by the Board. The Board considered the feedback received and decided to include the additional illustrative example (Example 4D) and to provide additional time for not-for-profit entities to implement the Standards in relation to their research grants. The Board noted the nine submissions did not raise any new issues not already considered by the Board. The submissions highlighted the diversity of interpretations and reinforced the importance of the illustrative examples reflecting fully the requirements of the Standard.

Optional deferral of AASB 15 and AASB 1058 for research grants

- BC7 The Board observed that implementation of AASB 15 and AASB 1058 *Income of Not-for-Profit Entities* by not-for-profit entities with research grants has been difficult. Significant judgement is required in applying the Standards and the sector has a large volume of tailored or non-standard contracts to assess. Many stakeholders in the university sector and medical research sector have December year-ends. With limited time left for the sector to tackle the significant implementation challenges and uncertainty as to the requirements to be applied, permitting not-for-profit entities to apply the Standards to research grants from periods beginning on or after 1 July 2019 rather than 1 January 2019 will provide the sector with additional implementation time and will not affect preparers with June year-ends. The extended implementation period would also give the Board an opportunity to provide further educative materials to assist with implementation.
- BC8 The extended implementation period for research grants applies to the accounting for both income relating to research grants (including revenue) and contract costs relating to research grants. Not-for-profit entities can elect whether to apply AASB 15 and AASB 1058 to all research grants, or to apply the previously applicable Standards to them, until periods beginning on or after 1 July 2019, when AASB 15 and AASB 1058 will have to be applied. The Board considered whether to define ‘research grants’ and decided that it would not be feasible to clearly define the term, but noted the numerous examples of research grants provided in the Illustrative Examples accompanying AASB 15. The Board noted the exemption does not apply on an individual research grant basis as such an exemption would significantly impair the consistency and comparability of an entity’s results.
- BC9 The Board considered whether to defer the application of AASB 15 and AASB 1058 in their entirety for all not-for-profit entities. However, the Board noted that such an approach would have implications for AASB 16, as AASB 16 includes references to AASB 15. For example, AASB 16 requires an entity to assess whether a transfer of an asset in a sale and leaseback transaction is a sale under AASB 15 (ie when a performance obligation is satisfied). The Board decided that the better approach was to permit delayed implementation of the Standard for research grants, being the area of most concern in applying the Standard.