Income of Not-for-Profit Entities

This compiled Standard applies to annual periods beginning on or after 1 July 2026 but before 1 January 2028. Earlier application is permitted for annual periods beginning before 1 July 2026. It incorporates relevant amendments made up to and including 15 December 2022.

Prepared on 16 October 2026 by the staff of the Australian Accounting Standards Board.

Compilation no. 6

Compilation date: 30 June 2026



Australian Government

Australian Accounting Standards Board

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Australian Accounting Standard AASB 1058 *Income of Not-for-Profit Entities* (as amended) is set out in paragraphs 1–41 and Appendices A–E. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. AASB 1058 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations, and AASB 1057 *Application of Australian Accounting Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

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Accounting Standard AASB 1058

The Australian Accounting Standards Board made Accounting Standard AASB 1058 *Income of Not-for-Profit Entities* under section 334 of the *Corporations Act 2001* on 9 December 2016.

This compiled version of AASB 1058 applies to annual periods beginning on or after 1 July 2026 but before 1 January 2028. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 15 December 2022 (see Compilation Details).

Accounting Standard AASB 1058
Income of Not-for-Profit Entities

Objective

1 This Standard establishes principles for not-for-profit entities that apply to:

(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.

2 If the consideration provided to acquire an asset, including cash, is significantly less than the fair value of that asset, or if no consideration was provided, and the difference is principally to enable the entity to further its objectives, such a transaction is within the scope of this Standard. For example, an entity that receives a cash grant to be used to further its objectives might not have provided any consideration in exchange for that cash. As another example, governments are entitled to non-contractual receivables arising from statutory requirements such as *taxes* and rates without providing consideration to the other party – those receivables provide income to the government to further its objectives. This Standard addresses the accounting for the income arising from such transactions.

Meeting the objective

3 To meet the objective in paragraph 1(a), an entity shall initially recognise:

(a) an asset in accordance with the applicable Australian Accounting Standard;

(b) any related *contributions by owners*, contract liabilities, financial liabilities, lease liabilities and other liabilities and revenue, measured in accordance with the applicable Australian Accounting Standard;

(c) any liabilities for obligations arising from transfers to enable the entity to acquire or construct non-financial assets to be controlled by the entity; and

(d) related income, representing the residual amount of resources received.

4 To meet the objective in paragraph 1(b), 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. 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.

5 AASB 15 *Revenue from Contracts with Customers* defines income 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). This Standard addresses income arising from the acquisition of assets for consideration that is significantly less than the fair value of the asset when that difference is principally to enable the not-for-profit entity to further its objectives. This Standard applies to those differences that result in increases in equity, other than those relating to contributions by owners or those accounted for under another Standard (eg AASB 15). Other Australian Accounting Standards (eg AASB 1004 *Contributions*) address income arising from decreases of liabilities and the accounting for contributions by owners.

6 An entity shall apply the requirements of this Standard to each transaction based on the substance of the transaction, rather than its legal form or the description given to it (eg grants or donations), so as to provide a faithful representation of the economic substance of the transaction.

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Scope (paragraphs B2–B11)

7 An entity shall apply this Standard to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable the entity to further its objectives, and the receipt of volunteer services, except for:

(a) share-based payment transactions within the scope of AASB 2 *Share-based Payment*;

(b) business combinations within the scope of AASB 3 *Business Combinations*;

(c) contracts within the scope of AASB 17 *Insurance Contracts*;

(d) licences outside the scope of AASB 15;

(e) income taxes within the scope of AASB 112 *Income Taxes*; and

(f) restructures of administrative arrangements within the scope of AASB 1004.

Recognition and measurement

Recognition and measurement of an asset

8 Except as set out in paragraphs 18–22, an entity shall apply the requirements of other Australian Accounting Standards (as relevant) to an asset arising from a transaction within the scope of this Standard. Examples include:

(a) AASB 9 *Financial Instruments* (eg cash received);

(b) AASB 16 *Leases*;

(c) AASB 116 *Property, Plant and Equipment*; and

(d) AASB 138 *Intangible Assets*.

Recognition and measurement of income and related amounts (paragraphs B12–B31)

9 On initial recognition of an asset, an entity shall recognise any related contributions by owners, increases in liabilities, decreases in assets, and revenue ('related amounts') in accordance with other Australian Accounting Standards. For example, related amounts may take the form of:

(a) *contributions by owners*, in accordance with AASB 1004;

(b) revenue or a contract liability arising from a contract with a customer, in accordance with AASB 15;

(c) a lease liability in accordance with AASB 16;

(d) a financial instrument, in accordance with AASB 9; or

(e) a provision, in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

10 Except as set out in paragraphs 15–17, an entity shall recognise income immediately in profit or loss for the excess of the initial carrying amount of an asset over the related amounts recognised in accordance with paragraph 9.

11 Appendix F *Australian Implementation Guidance for Not-for-Profit Entities* of AASB 15 provides guidance on the identification of a contract with a customer in a not-for-profit entity context. The Appendix also clarifies the measurement of revenue and contract liabilities where the transaction price includes an amount that would otherwise be separately recognised and accounted for as income immediately in accordance with this Standard.

12 For the purposes of this Standard, income is determined as the difference between the consideration for an asset and the asset's fair value, after recognising any other related amounts. An entity applies judgement in determining the extent to which the acquisition of an asset gives rise to income as specified by this Standard or to revenue, a liability or a contribution by owners recognised in accordance with another Australian Accounting Standard.

13 An entity might acquire an asset and also recognise related amounts that in total exceed the initial measurement of the asset. In such cases, the entity shall reassess whether it has appropriately identified and

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measured all the related amounts. If an excess remains after restating any related amounts, the entity shall recognise an expense immediately in profit or loss for the excess of the related amounts over the carrying amount of the asset acquired. An entity does not adjust the excess against the recognised related amounts.

14 An entity shall subsequently apply the requirements of other Australian Accounting Standards applicable to the related amounts referred to in paragraph 9.

Transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity

15 A transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset that is to be controlled by the entity is one that:

(a) requires the entity to use that financial asset to acquire or construct a recognisable non-financial asset to identified specifications;

(b) does not require the entity to transfer the non-financial asset to the transferor or other parties; and

(c) occurs under an enforceable agreement.

16 An entity shall recognise a liability for the excess of the initial carrying amount of a financial asset received in a transfer to enable the entity to acquire or construct a recognisable non-financial asset that is to be controlled by the entity over any related amounts recognised in accordance with paragraph 9. The entity shall recognise income in profit or loss when (or as) the entity satisfies its obligations under the transfer.

17 In such circumstances, the transferor has in substance transferred a recognisable non-financial asset to the entity. The entity recognises the financial asset received in accordance with AASB 9 and subsequently recognises the acquired or constructed non-financial asset in accordance with the applicable Australian Accounting Standard (eg AASB 116 for property, plant and equipment). This Standard requires the entity to initially recognise a liability representing the entity's obligation to acquire or construct the non-financial asset and, if applicable, other performance obligations under AASB 15, which involve the transfer of goods or services to other parties. The liability in relation to acquiring or constructing the non-financial asset is initially measured at the carrying amount of the financial asset received from the transferor that is not attributable to related amounts for performance obligations under AASB 15, contributions by owners, etc. The liability is recognised until such time when (or as) the entity satisfies its obligations under the transfer.

Volunteer services

18 Local governments, government departments, general government sectors (GGSs) and whole of governments shall recognise an inflow of resources in the form of volunteer services as an asset (or an expense, when the definition of an asset is not met) if:

(a) the fair value of those services can be measured reliably; and

(b) the services would have been purchased if they had not been donated.

19 Any not-for-profit entity (including those listed in the preceding paragraph) may, as an accounting policy choice, elect to recognise volunteer services, or a class of volunteer services, if the fair value of those services can be measured reliably, whether or not the services would have been purchased if they had not been donated.

20 Some volunteer services, such as professional services, might have readily observable market prices. In such circumstances, obtaining a reliable measure of fair value would be relatively straightforward. An entity is not required to perform an exhaustive search for volunteer services that might meet the recognition criteria in this Standard. Volunteer services that would have been purchased if they were not donated should be readily identifiable from the entity's operational requirements.

21 Recognised volunteer services shall be measured at fair value.

22 On the initial recognition of volunteer services as an asset or an expense, an entity shall recognise any related amounts in accordance with paragraph 9 (such as contributions by owners or revenue) and the applicable Australian Accounting Standards. The entity shall recognise the excess of the fair value of the volunteer services over the recognised related amounts as income immediately in profit or loss.

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Disclosure

23 **The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the effects of volunteer services and other transactions where an entity acquires an asset for consideration that is significantly less than fair value principally to enable the entity to further its objectives on the financial position, financial performance and cash flows of the entity. Paragraphs 24–41 specify requirements relating to this objective.**

24 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

25 An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

26 An entity shall disclose income recognised during the period, disaggregated into categories that reflect how the nature and amount of income (and the resultant cash flows) are affected by economic factors. An entity considers disclosing separately the following categories of income:

(a) grants, bequests and donations of cash, other financial assets and goods;

(b) recognised volunteer services; and

(c) for government departments and other public sector entities, appropriation amounts recognised as income, by class of appropriation.

27 To assist users to make informed judgements about the contribution of volunteer services and inventories to the achievement of the entity's objectives during the reporting period, and the entity's dependence on such contributions for the achievement of its objectives in the future, an entity is encouraged to disclose qualitative information, by major class of transaction, about the nature of the entity's dependence arising from:

(a) volunteer services it receives, including those not recognised; and

(b) inventories held but not recognised as assets during the period.

Non-contractual income arising from statutory requirements

28 An entity shall disclose income arising from statutory requirements (such as taxes, rates and *fines*) recognised during the period, disaggregated into categories that reflect how the nature and amount of income (and the resultant cash flows) are affected by economic factors.

29 To meet the objective in paragraph 23, an entity shall consider disclosing information about assets and liabilities recognised at the reporting date in accordance with this Standard, including the amounts of:

(a) receivables that are not a financial asset as defined in AASB 132 *Financial Instruments*: *Presentation* (eg income tax receivable from a taxpayer), and:

(i) interest income recognised in relation to such receivables during the period; and

(ii) impairment losses recognised in relation to such receivables during the period; and

(b) financial liabilities relating to prepaid taxes or rates for which the *taxable event* has yet to occur, and the future period(s) to which those taxes or rates relate.

30 Other information that may be appropriate for an entity to disclose includes, for each class of taxation income that the entity cannot measure reliably during the period in which the taxable event occurs (see paragraphs B28–B31):

(a) information about the nature of the tax;

(b) the reason(s) why that income cannot be measured reliably; and

(c) when that uncertainty might be resolved.

Transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity

31 An entity shall disclose the opening and closing balances of financial assets arising from transfers to enable an entity to acquire or construct recognisable non-financial assets to be controlled by the entity and the associated liabilities arising from such transfers, if not otherwise separately presented or disclosed. An entity

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shall also disclose income recognised in the reporting period arising from the reduction of an associated liability.

32 An entity shall disclose information about its obligations under such transfers, including a description of when the entity typically satisfies its obligations (for example, as the asset is constructed, upon completion of construction or when the asset is acquired).

33 An entity shall disclose an explanation of when it expects to recognise as income any liability for unsatisfied obligations as at the end of the reporting period. An entity may disclose this information in either of the following ways:

(a) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining obligations; or

(b) through qualitative information.

34 An entity shall disclose the judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of income arising from transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity. In particular, an entity shall explain the judgements, and changes in the judgements, made in determining the timing of satisfaction of obligations (see paragraphs 35 and 36).

35 For obligations that an entity satisfies over time, an entity shall disclose both of the following:

(a) the methods used to recognise income (for example, a description of the output methods or input methods used and how those methods are applied); and

(b) an explanation of why the methods used provide a faithful depiction of the entity's progress toward satisfying its obligations.

36 For obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when it has satisfied its obligations.

Restrictions

37 An entity is encouraged to disclose information about externally imposed restrictions that limit or direct the purpose for which resources controlled by the entity may be used. For example, an entity may elect to disclose an explanation of the judgements used in determining whether funds are restricted and any of, or any combination of, the following:

(a) assets to be used for specified purposes;

(b) components of equity divided into restricted and unrestricted amounts; and

(c) total comprehensive income divided into restricted and unrestricted amounts – either on the face of the statement of profit or loss and other comprehensive income or in the notes.

Compliance with parliamentary appropriations and other related authorities for expenditure

38 Paragraphs 39–41 apply only to government departments and other public sector entities that obtain part or all of their spending authority for the period from a parliamentary appropriation. The amounts disclosed in accordance with paragraphs 39–41 include any amounts appropriated in respect of which the entity recognises revenue or other income in accordance with another Australian Accounting Standard.

39 An entity shall disclose:

(a) a summary of the recurrent, capital or other major categories of amounts authorised for expenditure (including parliamentary appropriations), disclosing separately:

(i) the original amounts appropriated; and

(ii) the total of any supplementary amounts appropriated and amounts authorised other than by way of appropriation (eg by the Treasurer, other Minister or other legislative authority);

(b) the expenditures in respect of each of the items disclosed in (a) above; and

(c) the reasons for any material variances between the amounts appropriated or otherwise authorised and the resulting associated expenditures, and any financial consequences for the entity of unauthorised expenditure.

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40 For the purposes of resource allocation decisions, including assessments of accountability, this Standard requires that users of financial statements of government departments and other public sector entities that obtain part or all of their spending authority for the period from a parliamentary appropriation be provided with information about the amounts appropriated or otherwise authorised for the entity's use, and whether the entity's expenditures were as authorised. This information may be based on acquittal processes applied by an entity. When spending limits imposed by parliamentary appropriation or other authorisation have not been complied with, information regarding the amount of, and reasons for, the non-compliance is relevant for assessing the performance of management, the likely consequences of non-compliance, and the ability of the entity to continue to provide services at a similar or different level in the future.

41 Broad summaries of the major categories of appropriations and associated expenditures, rather than detailed reporting of appropriations for each activity or output, is sufficient for most users of such an entity's financial statements. Determining the level of detail and the structure of the summarised information is a matter of judgement. To develop effective disclosures, entities also subject to AASB 1055 *Budgetary Reporting* might consider the variance disclosure requirements in that Standard at the same time.

Commencement of the legislative instrument

42 [Repealed]

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Appendix A
Defined terms

This appendix is an integral part of the Standard.

contributions by owners	Future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the entity which: (a) conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) can be sold, transferred or redeemed.
fines	Economic benefits received or receivable by an entity, as determined by a court or other law enforcement body, as a consequence of a breach of a law or regulation.
payable tax credits	Tax credits that are not limited to the amount of a taxpayer's tax liability for the period, because they are available to beneficiaries regardless of whether they pay taxes.
tax relief	Preferential provisions of the tax law that provide particular taxpayers with concessions that are not available to others. Tax relief excludes **payable tax credits**.
taxable event	The event that the government, legislature or other authority has determined will be subject to taxation.
taxes	Economic benefits compulsorily paid or payable to public sector entities in accordance with laws and/or regulations established to provide income to the government. Taxes exclude **fines**.

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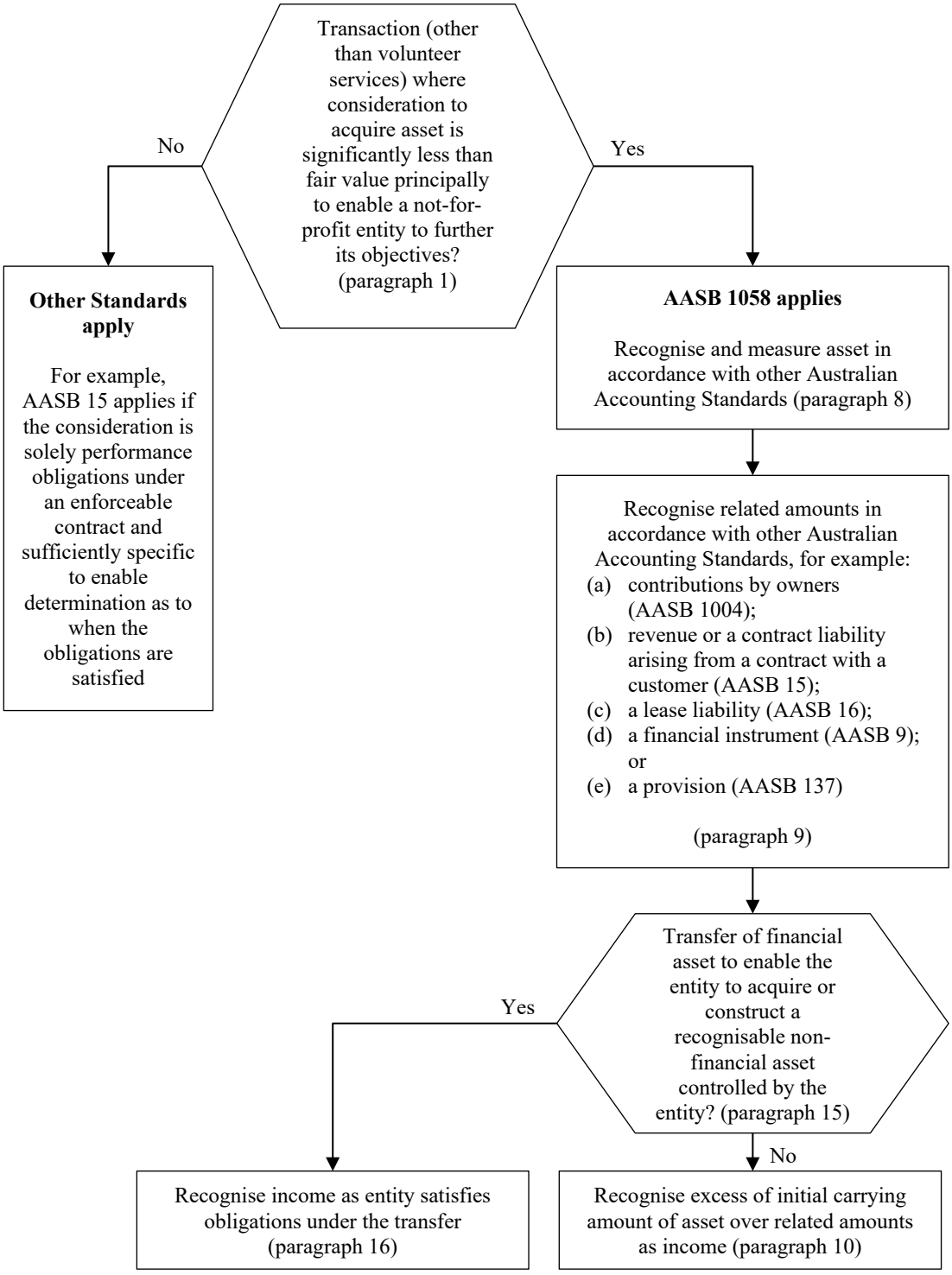
Appendix B
Application guidance

This appendix is an integral part of the Standard. It describes the application of paragraphs 1–41.

Application of this Standard

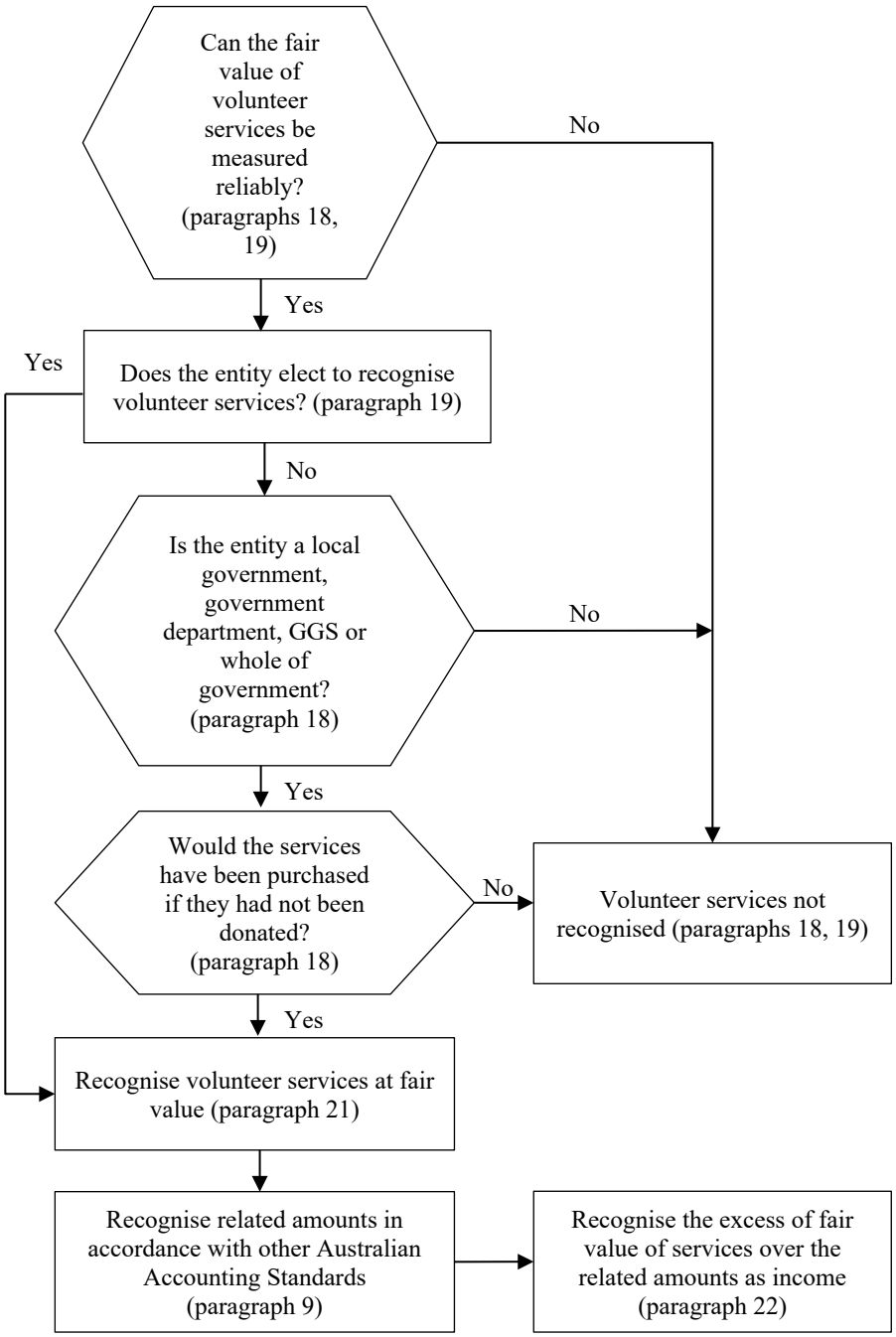
B1 The following flowcharts summarise the main requirements of this Standard to assist in its application.

Chart 1 – Transactions other than Volunteer Services



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Chart 2 – Volunteer Services



Scope (paragraph 7)

B2 This Standard provides guidance for transactions where on initial recognition of an asset the consideration for that asset was significantly less than fair value principally to enable the entity to further its objectives, and for volunteer services. Examples include:

(a) cash and other assets received from grants, bequests or donations;

(b) receipts of appropriations by government departments and other public sector entities;

(c) receipts of taxes, rates or fines; and

(d) assets acquired for nominal or low amounts.

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B3 Where an asset is acquired for consideration that is significantly less than fair value but that difference is not principally related to furthering the entity's objectives, the transaction is not within the scope of this Standard. Examples of such transactions include:

(a) distress sales; and

(b) trade discounts.

B4 When assessing whether the consideration for an asset is less than fair value principally to enable the entity to further its objectives, the entity may consider whether another entity could have obtained the asset under the same terms and conditions. If those terms and conditions are generally not available to other entities of the same class/nature, it is more likely that the difference between the consideration for the asset and the fair value of the asset acquired is principally for enabling the entity to further its objectives. For example, trade discounts available to all not-for-profit entities, but not to for-profit entities, are not considered principally to further the specific not-for-profit entity's objectives.

B5 Where the consideration provided under a transaction solely involves performance obligations recognised in accordance with AASB 15, the asset is not acquired for consideration that is significantly less than fair value. Therefore, the transaction is not within the scope of this Standard.

B6 Transfers with consideration significantly less than fair value primarily to enable a not-for-profit entity to further its objectives may be called grants, bequests, donations or appropriations and are usually made voluntarily. Such transfers could be in the form of cash or another financial asset, goods, or volunteer services, and may or may not be made with restrictions or conditions on their use. Transactions may include elements with consideration that is significantly less than fair value primarily to enable the not-for-profit entity to further its objectives and other elements with consideration at fair value. For example, a donation by a customer may be present in a contract in which a customer promises consideration in exchange for goods or services (eg a fundraising dinner).

B7 Volunteer services are services transferred by individuals or other entities without charge or for consideration significantly less than the fair value of those services. Whether such services (when recognised in accordance with paragraphs 18 and 19) are recognised as an asset or an expense depends on the entity's determination whether it is probable that economic benefits will flow to the entity beyond the current accounting period. In many instances, the economic benefits of volunteer services will be consumed as the services are acquired. In some cases, the volunteer services will contribute to the development of an asset and be included in the carrying amount of that asset.

B8 Entities may be recipients of volunteer services under voluntary or compulsory schemes operated in the public interest, for example:

(a) technical assistance from other governments or international organisations;

(b) persons convicted of offences who are required to perform community service for the entity;

(c) hospitals receiving the services of volunteers;

(d) schools receiving voluntary services from parents as teachers' aides or as board members; and

(e) local governments receiving the services of volunteer firefighters.

B9 Entities may also be recipients of volunteer professional services that support their broader activities. For example, charities and religious organisations may receive free professional accounting or legal services.

B10 Government appropriations, which establish the authority to spend money for particular purposes, are a form of a transfer made voluntarily as the government is not compelled to make particular payments of amounts appropriated.

B11 Taxes, rates and fines are forms of transfers made compulsorily.

Recognition and measurement of income and related amounts (paragraphs 9–17)

B12 An entity recognises related contributions by owners, liabilities and revenue ('related amounts') on initial recognition of an asset in accordance with another Australian Accounting Standard where the consideration for that asset is significantly less than fair value principally to further the entity's objectives.

B13 Any income recognised in accordance with paragraph 10 is strictly the residual of the difference between the fair value of the asset recognised and the consideration for that asset, after deducting any other related amounts described in paragraph 9. However, income is not recognised under paragraph 10 where another Standard addresses the accounting for the difference, such as the "day one gain/loss" requirements in AASB 9.

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Refund obligations

B14 An entity typically has the ability, through its own actions, to avoid the circumstances that would give rise to a breach of conditions or requirements in an agreement necessitating a return of funds received. In such cases, liabilities recognised in accordance with other Standards do not include refund obligations that apply in the event of a breach, unless the breach has occurred or is expected to occur. For example, a grant agreement may require the funds provided to an entity to be spent only in a particular period, failing which repayment to the grantor will be required. As the entity has the discretion whether to spend funds received in advance of the specified period, a refund liability is not recognised unless the entity breaches the condition or a breach is expected.

Transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity

B15 An entity that receives a financial asset, such as cash, in a transfer to enable the entity to acquire or construct a recognisable non-financial asset to be controlled by the entity shall apply the requirements of AASB 9 to that financial asset. The acquisition or construction of the non-financial asset is accounted for separately to the transfer of the financial asset, in accordance with other Standards. If the non-financial asset is not permitted to be recognised by another Standard (eg knowledge or intellectual property developed through research, which cannot be recognised as an asset in accordance with AASB 138), paragraphs 15–17 do not apply. The key criterion is that the recognisable non-financial asset will be under the control of the entity (ie for its own use) – it will not be transferred to the transferor or other parties. Therefore, the transfer of the financial asset (or the relevant part) to the entity does not occur under a contract with a customer and is not subject to AASB 15. However, the recognisable non-financial asset could increase the entity's ability or capacity to provide goods or services to other parties pursuant to other transactions, which are separate to the transfer that enabled the entity to acquire or construct the non-financial asset for its own use.

B16 On initial recognition of the financial asset, the entity recognises the requirement to acquire or construct the recognisable non-financial asset as an obligation and considers whether there are other conditions that give rise to performance obligations that require the entity to transfer goods or services to other entities (which are accounted for under AASB 15). The obligation to acquire or construct the non-financial asset is accounted for similarly to a performance obligation under AASB 15. For each obligation, the entity shall determine whether the obligation would be satisfied over time or at a point in time. If an entity does not satisfy an obligation over time, the obligation would be satisfied at a point in time.

B17 An entity shall apply a single method of measuring progress for each obligation satisfied over time and the entity shall apply that method consistently to similar obligations and in similar circumstances. At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of each obligation that is satisfied over time, and shall recognise income over time on that basis.

Endowments

B18 An endowment is a transfer of an asset to an entity for the ongoing support of the entity's objectives, and may (but not necessarily) be made as part of a bequest. An endowment may be made for the perpetual benefit of the entity in that the transfer is made with a requirement for the principal to be preserved, and only income earned on investment activity to be available for use in furthering the entity's objectives.

B19 An endowment may include conditions pertaining to investment of the principal and the purpose to which investment income must be applied. For example, an endowment made to a university may be made on condition that the principal is invested and the investment income used for annual scholarships. An entity shall consider whether the conditions of the transfer give rise to any related contribution by owners, liabilities or revenue that is recognised at the same time as the entity recognises an asset. For example, an entity may determine the conditions give rise to a financial liability within the scope of AASB 9 for the obligation to provide a financial asset into the future, or a contract liability within the scope of AASB 15 for unperformed performance obligations relating to the transfer of goods or services under the terms of the endowment.

Bequests

B20 A bequest is a transfer made according to the provisions of a deceased person's will. Whether the initial recognition of bequeathed items as assets in accordance with another Standard simultaneously gives rise to the recognition of income will depend on whether the entity recognises a liability, or other related amounts, as a result of the bequest. For example, the terms of a bequest may establish a contract between an entity and the estate that is within the scope of AASB 15 and give rise to a contract liability.

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Provisions

Constructive obligations

B21 When an entity recognises an asset in accordance with another Australian Accounting Standard for consideration that is significantly less than fair value principally to enable the entity to further its objectives, the entity applies paragraph 9 to recognise any related amounts. When applying that paragraph, an entity considers whether a provision should be recognised in accordance with AASB 137 for a constructive obligation.

B22 Critical to recognising a provision for a constructive obligation, an entity must demonstrate that its published policies, past practices or current statements are sufficiently specific to raise a valid expectation on the part of other parties that the entity will discharge its responsibilities under those policies, practices or statements. Determining whether an entity's policies, practices or statements are sufficiently specific to create such an expectation among other parties is a matter of judgement. However, it is unlikely that an entity's charter or stated objectives would satisfy the definition of a constructive obligation.

B23 An established pattern of past practices might also create a valid expectation among other parties that the entity will continue to adhere to those practices in the future. While entities might establish a general pattern for utilising assets received, they often do not adhere to those patterns to such a degree as to create a valid expectation among other parties.

Legal obligations

B24 Contractual terms (implicit or explicit), legislation or another operation of the law might create a legal non-financial obligation for an entity. In these circumstances an entity applies AASB 137 to recognise a provision, if any, arising from those legal obligations.

B25 Provisions might arise from terms included in a lease, such as an obligation to return or restore the leased asset in its original condition. Paragraphs 24 and 25 of AASB 16 provide guidance on accounting for an obligation to maintain, or restore, assets to conditions specified in a lease. Where such an obligation exists, the obligation is also accounted for in accordance with AASB 137.

Parliamentary appropriations as income

B26 The nature of parliamentary appropriations, and the circumstances that give rise to a government department's recognition of such appropriations, can vary across different jurisdictions in Australia, and may vary for different types of appropriations within a particular jurisdiction. Similarly, the nature and content of appropriation legislation, the manner in which government departments' activities are funded, and the mechanisms by which parliament and the government ensure that the government departments' use of public funds is appropriate and consistent with government priorities as sanctioned by parliament, can change over time. Accordingly, the extent to which amounts appropriated for a government department's use are recognised as income of a particular reporting period is determined by reference to the characteristics of the appropriation process and the circumstances in which the government department recognises appropriated amounts.

B27 For example, the parliamentary appropriation process currently adopted in some jurisdictions in Australia is such that the government departments do not gain control of funds appropriated for their use until obligations are incurred or expenditures are made by the government department. In these jurisdictions, 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.

Non-contractual income arising from statutory requirements

B28 Taxes, rates and fines do not give rise to a contract liability or revenue recognised in accordance with AASB 15, even when they are raised in respect of specific goods or services. This is because the entity does not promise to provide goods or services in an agreement that creates obligations enforceable against the entity by legal or equivalent means.

B29 Taxes, rates and fines are not contributions by owners acting in their capacity as owners.

Payable tax credits and other tax relief

B30 Amounts of *tax relief* that enter directly into the calculation of a taxpayer's tax liability (including tax allowances, exemptions and deductions, and 'non-payable tax credits') are treated as reductions in income (ie

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foregone income), rather than expenses. A 'non-payable tax credit' is a tax credit limited to the amount of the taxpayer's tax liability for the period. An example of tax relief that enters directly into the calculation of a taxpayer's tax liability is where taxpayers are permitted tax deductions for self-education expenses. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession.

B31 In contrast, a *payable tax credit* is a tax credit that is not limited to the amount of the taxpayer's tax liability for the period; that is, any excess of the tax credit over the tax liability for the period would be payable to the taxpayer. Such tax credits might be payable to taxpayers as part of a programme in which the same amount of benefit is paid to taxpayers and non-taxpayers alike (the latter being payable exclusively in the form of a cash benefit). For example, a government may use the tax system as a convenient method of paying benefits to taxpayers, which would otherwise be paid using another payment method, such as writing a cheque, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of an individual's health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability (by providing payable tax credits), making a payment by cheque or by paying an amount directly to the insurer. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently, this amount is an expense of the government and is recognised separately from its tax income. Tax income is measured gross of any expenses incurred by granting payable tax credits.

Volunteer services (paragraphs 18–22)

B32 A not-for-profit entity that makes an accounting policy choice to recognise volunteer services under paragraph 19 shall only change its accounting policy if the change meets the criteria in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraph 14). That is, an entity can change an accounting policy only if the change:

(a) is required by an Australian Accounting Standard; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

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Appendix C
Effective date and transition

This appendix is an integral part of the Standard.

Effective date

C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted provided that entities apply AASB 15 *Revenue from Contracts with Customers* to the same period. If an entity applies this Standard earlier, it shall disclose that fact.

C1A Notwithstanding paragraph C1, an entity may elect not to apply this Standard to research grants until annual reporting periods beginning on or after 1 July 2019. If a not-for-profit entity applies this Standard to research grants prior to that, it shall also apply AASB 15 to research grants at the same time.

C1A AASB 17, issued in July 2017, amended paragraph 7. An entity shall apply that amendment when it applies AASB 17.

Transition

C2 For the purposes of the transition requirements in paragraphs C3–C12:

(a) the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard; and

(b) a completed contract is a contract or transaction for which the entity has recognised all of the income in accordance with AASB 1004 *Contributions*.

C3 An entity shall apply this Standard either:

(a) retrospectively to each prior reporting period presented in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application in accordance with paragraphs C6–C11.

C4 Notwithstanding the requirements of paragraph 28 of AASB 108, when this Standard is first applied, an entity need only present the quantitative information required by paragraph 28(f) of AASB 108 for the annual reporting period immediately preceding the first annual reporting period for which this Standard is applied (the 'immediately preceding period') and only if the entity applies this Standard retrospectively in accordance with paragraph C3(a). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

C5 When applying this Standard retrospectively in accordance with paragraph C3(a), as a practical expedient an entity need not restate completed contracts or transactions that:

(a) begin and end within the same annual reporting period; or

(b) are completed contracts or transactions at the beginning of the earliest period presented.

If an entity applies this expedient, it shall do so consistently to all completed contracts or transactions within all reporting periods presented and shall disclose the use of this expedient.

C6 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. Under this transition method, an entity may elect to apply this Standard retrospectively only to contracts and transactions that are not completed contracts at the date of initial application.

C7 For the reporting period that includes the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied retrospectively in accordance with paragraph C3(b):

(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

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

Assets acquired for significantly less than fair value

C8 Assets acquired for consideration that was significantly less than fair value principally to enable the entity to further its objectives may have been measured on initial recognition under other Australian Accounting Standards at a cost that was significantly less than fair value. As a practical expedient, such assets are not required to be remeasured at fair value, whether the entity elects to apply this Standard retrospectively in accordance with paragraph C3(a) or C3(b).

Leases with significantly below-market terms and conditions

Leases classified as operating leases

C9 If an entity applies this Standard before applying AASB 16 *Leases*, and notwithstanding the requirements in paragraph C3, for leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were classified as operating leases in accordance with AASB 117 *Leases*, the entity shall not apply the requirements of this Standard to recognise any asset or income. Instead, the entity shall continue to apply its accounting policy under AASB 117 to those operating leases. On transition to AASB 16 *Leases*, the entity shall apply the transition requirements of that Standard to leases classified as operating leases in accordance with AASB 117.

Leases classified as finance leases

C10 If an entity elects to measure a class of right-of-use assets at initial recognition at fair value and applies this Standard before applying AASB 16, for leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were classified as finance leases in accordance with AASB 117, and if an entity elects to apply this Standard in accordance with:

(a) paragraph C3(a) – the entity shall:

(i) measure each leased asset in the class at fair value at the beginning of the earliest period presented;

(ii) measure the lease liability in accordance with AASB 117;

(iii) recognise any related items in accordance with paragraph 9; and

(iv) recognise any income arising as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the earliest period presented; or

(b) paragraph C3(b) – the entity shall:

(i) measure each leased asset in the class at fair value at the date of initial application of this Standard;

(ii) measure the lease liability in accordance with AASB 117;

(iii) recognise any related items in accordance with paragraph 9; and

(iv) recognise any income arising as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application of this Standard.

C10A If an entity elects not to measure a class of right-of-use assets at initial recognition at fair value and applies this Standard before applying AASB 16, for leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were classified as finance leases in accordance with AASB 117, the entity shall continue to apply its accounting policy under AASB 117 to those finance leases. On transition to AASB 16, the entity shall apply the transition requirements of that Standard to leases classified as finance leases in accordance with AASB 117.

C11 An entity applying paragraph C10 may, as a practical expedient, apply the paragraph to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of this approach would not differ materially from applying paragraph C10 to the individual leases within that portfolio. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

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References to AASB 9

C12 If an entity applies this Standard but does not yet apply AASB 9 *Financial Instruments*, any reference in this Standard to AASB 9 shall be read as a reference to AASB 139 *Financial Instruments: Recognition and Measurement.*

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Appendix D
Amendments to other Standards

This appendix sets out the amendments to other Australian Accounting Standards that are a consequence of the AASB issuing this Standard.

[Deleted by the AASB – the amendments have been incorporated into the text of the relevant pronouncements.]

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Appendix E
Australian simplified disclosures for Tier 2 entities

This appendix is an integral part of the Standard.

AusE1 **Paragraphs 23–41 do not apply to entities preparing general purpose financial statements that apply AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.**

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Illustrative examples

These illustrative examples accompany, but are not part of, AASB 1058. They illustrate aspects of AASB 1058, but are not intended to provide interpretative guidance.

IE1 The following examples portray hypothetical situations. They are intended to illustrate how a not-for-profit entity might apply some of the requirements of AASB 1058 *Income of Not-for-Profit Entities* to particular types of transactions, on the basis of the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern need to be evaluated when applying AASB 1058.

Recognition and measurement of income and related amounts (paragraphs 9–22)

IE2 Examples 1–8 illustrate the requirements in AASB 1058 for identifying related amounts and income to be recognised in accordance with paragraphs 9 and 10 on the initial recognition of an asset. The following requirements are illustrated in the examples in identifying related amounts in the form of:

(a) contributions by owners, in accordance with AASB 1004;

(b) a financial instrument, in accordance with AASB 9;

(c) a lease liability arising in a lease contract, in accordance with AASB 16; and

(d) revenue or a contract liability arising from a contract with a customer, in accordance with AASB 15.

Contributions by owners

Example 1—Contributions by owners – transfer of cash appropriation

A Government department transfers cash appropriations of $730,000 to its controlled entity and designates the transfer before it occurs as an equity contribution in accordance with paragraph 8(c) of AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*, as identified in AASB 1048 *Interpretation of Standards*.

Scope and asset recognition

The controlled entity determines:

- the cash appropriation is an asset acquired by the controlled entity for no consideration to further the objectives of the controlled entity. Accordingly, the appropriation is within the scope of AASB 1058; and
- it controls a financial asset within the scope of AASB 9.

Accounting treatment

In accordance with paragraph 9, the related amount for the cash asset is a contribution by owners, which is recognised in equity, as it meets the requirements of AASB Interpretation 1038 and AASB 1004.

The journal entry on initial recognition by the controlled entity is:

	Debit	Credit
Cash	730,000	
Equity – contributed capital		730,000

Example 2—Contributions by owners to a private sector not-for-profit entity

Charity P makes a contribution of $500,000 to establish Company S, which operates child care centres. There are no repayment terms to the contribution and there are no goods or services to be provided to Charity P in return for the contribution. Company S is a company limited by guarantee with required member contributions of $10. Charity P controls the voting rights and in accordance with AASB 10 *Consolidated Financial Statements* consolidates Company S.

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Scope and asset recognition

Company S determines:

- the cash from the contribution is an asset acquired by Company S for no consideration to further the objectives of Company S. Accordingly, the cash injection is within the scope of AASB 1058; and
- it controls a financial asset within the scope of AASB 9.

Accounting treatment

In accordance with paragraph 9, the related amount for the cash asset is accounted for as a contribution by owners. Charity P is a member (owner) of Company S, and the transfer is from an owner acting in their capacity as an owner. No services are required of Company S as a result of the contribution, nor is there an obligation to repay the funds.

The journal entry on initial recognition by Company S is:

	Debit	Credit
Cash	500,000	
Equity – contributed capital		500,000

Financial instruments, bequests and endowments

IE3 Examples 3 and 4 illustrate the requirements of paragraphs 9 and 10 in AASB 1058 for the accounting treatment for financial instruments, bequests and endowments. Examples 3A and 4 illustrate the identification of related amounts in the form of a financial instrument, in accordance with AASB 9. Receiving a bequest or endowment in the form of cash, or paying out the principal and/or interest in the form of cash, requires the application of the financial instrument accounting requirements in AASB 9.

Example 3—Endowment made to a university

An alumnus transferred $2 million cash to University A as an endowment. Under the terms of the endowment:

- the $2 million cash can be invested at the university's discretion;
- subject to preserving the real value of the principal, all income generated from investing the principal is required to be applied towards cash scholarships of $20,000 per student for the student to use at their discretion; and
- if the university breaches the terms of the endowment, the university is required to return the real value of the principal to the alumnus.

Scope and asset recognition

University A determines:

- it has an enforceable agreement with the alumnus, as the university can be required to return the endowment in the event it breaches the terms under which it was given;
- the $2 million endowment is an asset the university acquired for no consideration to further the objectives of the university. Accordingly, the endowment is within the scope of AASB 1058; and
- it controls a financial asset ($2 million) within the scope of AASB 9.

Example 3A – Financial instrument (cash scholarships, not goods or services)

Based on the facts and circumstances outlined above, as the income generated from the principal amount (excluding the income required to preserve the real value of the principal) must be applied towards funding cash scholarships at some time in the future (at its discretion), the university considers whether it has incurred a financial liability under AASB 9 as a related amount. The university also considers whether derecognition of the financial asset is appropriate under Chapter 3 'Recognition and derecognition' of AASB 9, instead of the recognition of a financial liability.

In this example, no transfer of specific goods or services is required under the terms of the endowment. The scholarship is paid in cash rather than through the provision of goods or services. Accordingly, the university determines that it does not have a contract with a customer (the alumnus) that would be accounted for in accordance with AASB 1058.

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Similarly, the endowment does not give rise to the following types of related amounts:

- a contribution by owners, as the alumnus does not control or have an ownership interest in the university;
- a lease liability as defined in AASB 16, as the endowment does not provide a right to use a specified asset; and
- a provision within the scope of AASB 137, as the agreement provides legal obligations and there are no other constructive obligations that are sufficiently specific to consider.

Accounting treatment

In accordance with paragraph 9, University A accounts for the endowment under AASB 9. In accordance with paragraph B13, any difference between the $2 million financial asset recognised and a related financial liability recognised would be accounted for under AASB 9. Paragraph 10 of AASB 1058 does not apply in this case.

Example 3B – Income (provision of services, no sufficiently specific performance obligation)

In this example, the facts of Example 3 apply, except that:

- University A is required to provide free student accommodation each year for one student for one year, for as long as University A continues to operate as a university and subject to the real value of the principal of $2 million being preserved;
- income generated from investment of the principal may be applied to provide the student accommodation; and
- any excess income generated from the investment of the principal is permitted to be spent on other university activities.

Based on these facts and circumstances, on gaining control of the endowment of $2 million, University A determines that there are no related amounts for the $2 million as the endowment does not give rise to:

- a contribution by owners, as the alumnus does not control or have an ownership interest in University A;
- a contract with a customer within the scope of AASB 15. Although the promise to provide student accommodation is a promise to transfer goods or services, it is not a sufficiently specific performance obligation relating to the controlled asset. While the promise to provide student accommodation is distinct and the university can identify at the end of each year whether or not it has delivered the accommodation for one student, it cannot identify when its obligation is fully satisfied and cannot allocate the transaction price as the promise is continuous as long as University A continues to operate as a university. University A must be able to identify when the performance obligation is satisfied for the promise to be identified as sufficiently specific (paragraph F20 of AASB 15);
- a lease liability as defined in AASB 16, as the endowment agreement does not provide a right to use a specified asset (the accommodation provided can vary from year to year);
- a financial liability within the scope of AASB 9 as there is no obligation to provide cash or other financial assets to other parties, only accommodation; or
- a provision within the scope of AASB 137, as the agreement provides legal obligations and there are no other constructive obligations that are sufficiently specific to consider.

Accounting treatment

In accordance with paragraph 10, the endowment of $2 million is accounted for by University A as income immediately in profit or loss on recognition of the financial asset in accordance with AASB 9.

The journal entry on initial recognition is:

	Debit	**Credit**
Cash	2,000,000	
Income		2,000,000

Example 3C – Contract liability under AASB 15

In this example, the facts of Example 3B apply, except that University A is required to provide the annual scholarship for one student's accommodation for a defined period of 30 years.

University A determines:

- it controls a financial asset ($2 million) within the scope of AASB 9; and
- on gaining control of the endowment, the university does not have related amounts in the form of contributions by owners, a lease liability, a financial liability or a provision.

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However, the promise to provide student accommodation is a sufficiently specific performance obligation related to the asset that AASB 15 applies, as the obligation to provide student accommodation for one student each year is distinct, and the university is able to identify that its obligation under the agreement will be satisfied by the end of 30 years (paragraph F20 of AASB 15). The endowment is also an enforceable agreement. Accordingly, as the consideration provided for the endowment is solely a performance obligation within the scope of AASB 15, AASB 1058 does not apply.

Accounting treatment

On recognition of the endowment financial asset in accordance with AASB 9, University A also recognises a contract liability in a contract with a customer in accordance with AASB 15 for its performance obligation to transfer an annual scholarship for 30 years. University A recognises income immediately in profit or loss for any excess of the fair value of the cash transferred ($2 million) over the contract liability recognised in accordance with paragraph 106 of AASB 15.

The journal entry on initial recognition is:

	Debit	Credit
Cash	2,000,000	
Contract liability		1,850,000
Income		150,000

Example 4—Refundable prepaid local government rates

Local Council A calculates the rates it charges local residents on an annual basis approximately two months prior to the annual period to which the rates relate. Residents and other ratepayers are able to pay their rates in advance on a quarterly or annual basis. Rate payments received before the annual rateable period begins are fully refundable up to the beginning of the rateable period for which the payment is made. For example, if the Council receives a payment in May 20X6 for the rateable period from 1 July 20X6 to 30 June 20X7, the receipt is refundable in May and June 20X6.

The following transactions have occurred during May and June 20X6, in aggregate:

- ratepayers prepaid 20X6/X7 rates of $120,000; and
- refunds of prepaid rates totalling $7,000 were paid to ratepayers.

On receipt of prepaid rates, the Council determines that it has acquired cash (a financial asset) for no consideration to further the objectives of the Council. Accordingly, the transaction is within the scope of AASB 1058, and the Council seeks to identify any related amounts for recognition.

As the taxable event for the rates has not yet occurred (see AASB 9, Appendix C), the prepaid rates are refundable at the request of the ratepayer. Until the taxable event occurs, the prepaid rates do not have the character of non-contractual amounts arising from statutory requirements. Therefore, during the refundable period, the rates received in advance give rise to a financial liability that is within the scope of AASB 9. This is the related amount to be recognised in accordance with paragraph 9.

Accounting treatment

On recognition of the prepaid-rates financial asset, in accordance with paragraph 9 the Council also recognises the related amount of the financial liability in accordance with AASB 9, and no income is recognised by the Council. Following the occurrence of the taxable event on 1 July 20X6, the financial liability is extinguished and the Council recognises income for the prepaid rates that have not been refunded.

The journal entries for the accounting (aggregating the journal entries in May and June 20X6 for individual transactions) are:

	Debit	Credit
Receipt of prepaid rates (aggregate)		
Cash	120,000	
Financial liability		120,000
Refunds of prepaid rates (aggregate)		
Financial liability	7,000	
Cash		7,000

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	Debit	Credit
Taxable event occurs **1 July 20X6**		
Financial liability	113,000	
Income		113,000

Leases

IE4 Example 5 illustrates the requirements in AASB 1058 regarding the recognition of a lease liability in accordance with AASB 16.

Example 5—Lease with significantly below-market minimum lease payments

Charity A (lessee) enters a 30 year lease with a local government (the lessor) for the use of a facility. The lease contract specifies lease payments of $100 per annum. At the inception of the lease, the entity assesses the terms and conditions of the lease, including restrictions, and determines the fair value of the right to use the facility for 30 years is $360,000. The leased premises must be used to provide services to the homeless, or else Charity A will no longer be able to use the facility.

There are no other conditions specified in the lease contract.

Scope and asset recognition

Charity A determines:

- the $360,000 right-of-use asset is an asset the charity acquired for consideration significantly below fair value to further the objectives of the charity. Accordingly, the asset is within the scope of AASB 1058; and
- it controls a leased asset ($360,000) within the scope of AASB 16.

On recognition of the right-of-use asset, Charity A determines the lease does not give rise to related amounts of the following types:

- a contribution by owners, as the local government does not have an ownership interest in Charity A;
- a contract with a customer in accordance with AASB 15, because the lease liability arises from a lease contract within the scope of AASB 16 and there are no other sufficiently specific performance obligations requiring transfers of goods or services to the local government or others associated with the lease contracts. Use of the facility to provide services to the homeless is not sufficiently specific to identify when the services have been provided. Accordingly, AASB 15 does not apply;
- a provision within the scope of AASB 137, as the agreement provides legal obligations and there are no other constructive obligations that are sufficiently specific to consider; and
- a financial instrument, because lease contracts within the scope of AASB 16 are scoped out of AASB 9.

Accounting treatment

In accordance with AASB 16, Charity A recognises a right-of-use asset of $360,000 and a lease liability of $1,537, being the present value of the future lease payments discounted at Charity A's incremental borrowing rate of 5% per annum (as the interest rate implicit in the lease is not readily determinable). Charity A also recognises the difference of $358,463 between the fair value of leased asset and the lease liability as income at inception of the lease in accordance with paragraph 10 of AASB 1058.

The journal entry on initial recognition is:

	Debit	Credit
Right-of-use asset	360,000	
Lease liability		1,537
Income		358,463

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Contract with a customer – revenue and income

IE5 Examples 6–8 illustrate the requirements in AASB 1058 regarding recognition of revenue and a contract liability in accordance with AASB 15. To be in the scope of AASB 15, the contract must:

(a) be enforceable;

(b) contain performance obligations to transfers goods or services to another party that are sufficiently specific to enable determination of when the obligation has been satisfied; and

(c) not result in the goods or services specified being retained by the entity, ie the goods or services will be transferred to the customer or to other parties on behalf of the customer.

Example 6—Enforceable agreement, performance obligations and restrictions on timing of expenditure

Charity B receives a government grant of $2.4 million on 31 May 20X6, which is refundable if the money is not spent in the period 1 July 20X6 to 30 June 20X7.

Scope and asset recognition

Charity B determines:

- the $2.4 million grant is an asset the charity acquired to further the objectives of the charity; and
- it controls a financial asset ($2.4 million cash) within the scope of AASB 9.

The above fact pattern and analysis applies to Examples 6A and 6B, described below.

Example 6A – Enforceable agreement, no specific performance obligations but restrictions on timing of expenditure

This example contains the additional fact that Charity B's agreement with the grantor specifies that the grant must be used in accordance with the charity's overall objectives. The agreement does not specify the services that the grant must be used for.

Charity B analyses the terms of the grant agreement and notes:

- the agreement is enforceable as the grantor can enforce its rights in the contract to require Charity B to return the cash of $2.4 million if Charity B does not spend the amount in the year ending 30 June 20X7;
- the required use of the funds to further the entity's objectives is not sufficiently specific to know when goods or services have been transferred and the obligation satisfied; and
- the time restriction on use of the funds is not sufficiently specific of itself to create a performance obligation to transfer goods or services to the grantor or a third party so that it can be identified when the obligation is satisfied. When funds have been commingled with other funds, such as general purpose funds, used to fund administrative services as well as those related to the objectives of the entity, it is not possible to reliably determine what transfer of goods or services may have occurred using the specific funds. The time restriction is also not sufficiently specific of itself to create a constructive obligation.

Consequently, Charity B concludes that the transaction is not a contract with a customer as defined under AASB 15. Because the $2.4 million grant is an asset the charity acquired for no consideration to further its objectives, the grant is within the scope of AASB 1058.

Accounting treatment

Charity B determines that there are no related amounts to recognise in accordance with paragraph 9. Therefore, Charity B recognises income of $2.4 million in accordance with paragraph 10 of AASB 1058 on 31 May 20X6 on recognition of the financial asset in accordance with AASB 9.

Furthermore, on 31 May 20X6, Charity B does not have a liability under AASB 9 for the potential breach of contract, as it has the discretion not to spend the grant money before 1 July 20X6. If Charity B breaches the contract by spending the money before 1 July 20X6 or failing to spend the grant in full by 30 June 20X7, the breach is the obligating event giving rise to a liability (in this instance, a penalty). For this reason, Charity B recognises the grant of $2.4 million as income as at 31 May 20X6. If Charity B breaches the contract, it recognises a liability and equivalent expense for the amount due for repayment when the breach occurs.

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The journal entry for the accounting treatment is:

31 May 20X6	Debit	Credit
Cash	2,400,000	
Income		2,400,000

Example 6B – Enforceable agreement, sufficiently specific performance obligations and restrictions on timing of expenditure

This example contains the following additional facts relating to Charity B:

- Charity B's charter states its purpose is to provide counselling to victims of violence and emergency accommodation to the homeless; and
- Charity B has an agreement with the grantor that specifies the grant must be spent providing crisis counselling services for a given number of hours per week for the entire year ending 30 June 20X7. Charity B expects to fulfil its promise to provide the counselling services.

Based on the facts and circumstances outlined above, on gaining control of the grant of $2.4 million, Charity B determines that the grant agreement does not give rise to related amounts of the following types:

- a contribution by owners, as the government does not have an ownership interest in Charity B;
- a lease liability as defined in AASB 16, as the grant agreement is not a lease and does not contain a lease;
- a financial liability within the scope of AASB 9, as there is no unconditional obligation to repay the grant and the conditions requiring repayment of the grant are under the control of Charity B; and
- a provision within the scope of AASB 137, as the agreement provides legal obligations and there are no other sufficiently specific constructive obligations to consider.

Charity B concludes its agreement with the grantor is a contract with a customer as defined in AASB 15. This is on the basis that:

- the agreement is enforceable (refer to paragraphs F11–F19 of AASB 15), as the grantor can enforce its rights in the contract to require Charity B to return the funds if Charity B does not fulfil the specific performance obligations under the contract (ie by providing the counselling services for the specified number of hours per week for the entire year); and
- Charity B's obligation to provide the specific services (identified counselling services for a specific number of hours per week in 20X6/X7 to victims of violence) in return for the consideration from the grantor is sufficiently specific to determine when the obligation is satisfied, as it will be clear at the end of each week whether the specified hours of counselling have been provided (refer to paragraph F20 of AASB 15). The services are also provided to third parties and not consumed by Charity B.

Accounting treatment

In accordance with paragraph 9, the related amount for the $2.4 million is accounted for by Charity B as a contract liability in accordance with AASB 15 on recognition of the financial asset in accordance with AASB 9.

The journal entry for the initial recognition is:

31 May 20X6	Debit	Credit
Cash	2,400,000	
Contract liability		2,400,000

Example 7—Donations, management intent and discretionary use

Charity C's publicly stated objective is to build water wells to provide clean drinking water in developing countries.

Charity C received 200 donations of $800 each. The donors indicated the donations are to be used for the purpose of building water wells.

The above fact pattern applies to Examples 7A–7D, described below.

Example 7A – Pledges

In this example, the facts in Example 7 apply, except the 200 donations of $800 each are pledged by donors to Charity C in a telethon, and no cash has yet been received by Charity C.

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Charity C determines it does not control the future economic benefits associated with pledged amounts before receipt of the cash, as it does not have an enforceable right to require the donors to meet their pledge. Accordingly, the charity does not recognise an asset until the requirements of AASB 9 are satisfied. No journal entry is required.

Example 7B – Management intent, no legal or constructive obligations

In this example, the facts in Example 7 apply, except the Board of Charity C determined at a board meeting that funds raised from the public appeal from which the donated funds arose are to be used only for building water wells in Kenya. The Board has not publicly communicated this intention and its public statements are limited to those that appear in the Example 7 fact pattern above.

Scope and asset recognition

Charity C determines:

- the $160,000 in donations is an asset the charity acquired for no consideration to further the objectives of the charity. Accordingly, the donation is within the scope of AASB 1058; and
- it controls a financial asset ($160,000) within the scope of AASB 9.

Based on the facts and circumstances, on gaining control of the donations, Charity C determines that the donations do not give rise to related amounts of the following types:

- a contribution by owners, as the donors do not have an ownership interest in Charity C, or if they are owners, the donations were not made in their capacity as owners;
- a lease liability as defined in AASB 16, as the agreement Charity C enters into with the donors with respect to the donations is not a lease, and does not contain a lease;
- a financial liability within the scope of AASB 9, as there is no obligation to provide cash or another financial asset to other parties; and
- a provision within the scope of AASB 137, as the agreement provides legal obligations and there are no other constructive obligations to consider – there is no constructive obligation as past practice indicates water wells have been built in a number of different developing countries and the possible obligation to build water wells is not sufficiently specific to know when those funds received have been spent on water wells, or whether they have been spent on other purposes.

Charity C assesses whether it has any related amounts in the form of revenue from a contract with a customer in accordance with AASB 15. Charity C determines its arrangement with donors is not an enforceable agreement in accordance with paragraph 10 of AASB 15 as there is no return obligation, and although management intends to spend the monies to build wells in a particular country, there is no public statement that would establish an enforceable contractual arrangement. The Board noting that the donation is to be spent on water wells is not sufficiently specific to enable enforcement of the contract, and there is no return obligation if not spent on water wells.

Accounting treatment

Accordingly, Charity C recognises the donations as income when it gains control of the donated cash, in accordance with AASB 1058.

The journal entry for the initial recognition (in aggregate) is:

	Debit	**Credit**
Cash	160,000	
Income		160,000

Voluntary disclosure of restrictions

Although not an enforceable performance obligation, Charity C determines the donor expectations that the donations are intended to be used for the purpose of building water wells represents a restriction that is externally imposed on the donations. Consequently, Charity C elects to disclose the following information regarding the externally imposed restrictions on the donations by dividing total comprehensive income into restricted and unrestricted amounts in the statement of profit or loss and other comprehensive income in accordance with paragraph 37 of AASB 1058.

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Summary of Statement of Profit and Loss and Other Comprehensive Income of Charity C

	$
Donation income – restricted	160,000
Donation income – unrestricted	230,000
Other revenue	10,000
Total revenue	**400,000**
Total expenses	220,000
Total comprehensive income	**180,000**
Total comprehensive income – restricted	160,000
Total comprehensive income – unrestricted	20,000

Charity C also elects to disclose restricted funds in the statement of financial position by presenting restricted and unrestricted components of retained profits.

Example 7C – Not enforceable and for discretionary use

In this example, the facts in Example 7 apply, except Charity C collected the donations as part of a campaign to raise funds for building water wells in Kenya. However, Charity C indicated that any funds not required would be spent on other purposes in Kenya.

Subsequently, Charity C suspended the construction of the water wells due to a disease outbreak in Kenya and redirected some of the donations received for the construction of the water wells to emergency food and medical supplies for the affected people in that country.

Consistent with Example 7B, Charity C determines it controls a financial asset within the scope of AASB 9 and does not have a related contribution by owners, lease liability, financial liability or provision, as specified in another Australian Accounting Standard.

Consistent with Example 7B, Charity C assesses whether it has any related amounts in the form of revenue from a contract with a customer in accordance with AASB 15. Charity C's promise to transfer goods or services related to the donations is not an enforceable arrangement with the donors. Charity C has the discretion to direct the use of the donated money, provided the use is consistent with the overall objectives of the charity, and the donors would not have recourse against Charity C for redirecting the donations. Consequently, Charity C does not have a contract with a customer as defined under AASB 15.

Accounting treatment

Accordingly, Charity C recognises the donations as income when it gains control of the donated cash, in accordance with AASB 1058.

The journal entry for the initial recognition (in aggregate) is:

	Debit	**Credit**
Cash	160,000	
Income		160,000

Example 7D – Enforceable and sufficiently specific performance obligation

At the public launch of Charity C's appeal for donations, Charity C:

- reaffirmed its 20-year history of building water wells in Kenya, with the funds raised for building water wells having been used only for that purpose and in that country. This has been the established practice despite its disclaimer that donated money may be used for other aid activities in response to changing circumstances;
- publicly reinforced its commitment that the funds raised through this appeal are to be used only in respect of building wells in the identified country;
- pledged to return the donated funds if Charity C is unable or not required to spend the funds to build wells in Kenya. This is despite the disclaimer that Charity C can redirect the funds to other aid activities in response to changing circumstances; and
- publicly stated that each donation of $800 will construct two water wells. (The cost of well construction can vary from that, depending on any problems faced and efficiencies achieved.)

Consistent with Examples 7B and 7C, Charity C determines it controls a financial asset within the scope of AASB 9 and does not have a related contribution by owners, lease liability, financial liability or provision, as specified in another Australian Accounting Standard.

In contrast to Examples 7B and 7C, Charity C determines that the donations arise under contracts with customers, as defined under AASB 15. This is because:

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- the expectations raised through the commitment to refund unspent funds makes the agreements enforceable; and
- the public statements it has made and its long-standing practices, which create a valid expectation that the funds will be spent on the task of building wells in the identified country, are sufficiently specific as Charity C has committed that each donation of $800 will construct two water wells.

Accounting treatment

Charity C recognises each donation as a contract liability in accordance with AASB 15, when it gains control of the donated cash. Income is not recognised in respect of a donation until the specified two water wells have been built.

The journal entries for the accounting (aggregating the journal entries for individual donations) are:

	Debit	Credit
Initial recognition (aggregate)		
Cash	160,000	
Contract liability		160,000
Wells built (aggregate)		
Contract liability	160,000	
Income		160,000
Expenses – construction of 400 wells	153,000	
Cash		153,000

Example 8—Multi-year cash grant

The Local Government enters into an agreement with the State Government in the form of a Memorandum of Understanding (MOU)[1] to receive a multi-year cash grant of $90,000 from the State Government, which is received in full on 24 June 20X0. The grant is to fund education programs over three years commencing 1 July 20X0, with the objective of increasing the literacy of students of a specific rural area.

The fact pattern and analysis applies to Examples 8A–8C, described below.

Example 8A – Enforceable, no sufficiently specific performance obligation

This example contains the following additional facts:

- the MOU does not specify the activities the grant must be used for, other than an education program to increase literacy in a particular area; and
- the State Government can enforce the repayment of the grant if the entity does not apply the funds to relevant education programs.

Scope and asset recognition

The Local Government determines:

- the $90,000 grant is an asset the Local Government acquired to further the objectives of the Local Government; and
- it controls a financial asset ($90,000) within the scope of AASB 9.

Based on the facts and circumstances, on gaining control of the grant, the Local Government determines that there are no related amounts under paragraph 9 of AASB 1058 as the grant does not give rise to:

- a contribution by owners, as the State Government does not control the Local Government;
- a contract with a customer within the scope of AASB 15. The agreement is enforceable as the grantor can enforce its rights in the contract to require the Local Government to return the funds if the Local Government does not undertake relevant programs. However, the Local Government's performance obligation to provide relevant education programs is not sufficiently specific to be able to determine when the obligation is satisfied.
- a lease liability as defined in AASB 16, as the grant agreement is not a lease and does not contain a lease;
- a financial liability within the scope of AASB 9, as there is no obligation to provide cash or another financial asset to other parties; or

1 Not all Memoranda of Understanding would necessarily be enforceable.

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- a provision within the scope of AASB 137, as the agreement does not set out specific constructive obligations.

The Local Government concludes that the grant is an asset acquired for consideration that is significantly less than the fair value of the grant principally to further its objectives, and so the grant is within the scope of AASB 1058.

Accounting treatment

The Local Government determines that there are no related amounts to recognise under the MOU and so recognises the grant as income in accordance with paragraph 10 of AASB 1058 on 24 June 20X0.

The journal entry for the accounting is:

24 June 20X0	**Debit**	**Credit**
Cash	90,000	
Income		90,000

Example 8B – Enforceable and sufficiently specific performance obligation

This example contains the following additional facts:

- the MOU outlines the agreed activities of education programs that are tailored to the literacy needs of the students. The Local Government is required to provide to the State Government an annual report on the activities undertaken and the progress of the program. The Local Government is able to identify when its specific performance obligations are satisfied and expects to fulfil its promise to provide the agreed activities; and
- the State Government can enforce the repayment of the grant if the specified activities are not undertaken by requiring direct repayment or otherwise deducting unspent monies from future funding.

Scope and asset recognition

The Local Government determines:

- the $90,000 grant is an asset the Local Government acquired to further the objectives of the Local Government; and
- it controls a financial asset ($90,000) within the scope of AASB 9.

Based on the facts and circumstances, on gaining control of the grant, the Local Government determines that the grant agreement (the MOU) does not give rise to related amounts of the following types:

- a contribution by owners, as the State Government does not control the Local Government;
- a lease liability as defined in AASB 16, as the grant agreement is not a lease and does not contain a lease;
- a financial liability within the scope of AASB 9, as there is no obligation to provide cash or another financial asset to other parties; and
- a provision within the scope of AASB 137, as the agreement specifies legal obligations and there are no other sufficiently specific constructive obligations to consider.

The Local Government analyses the terms and conditions of the grant, and notes:

- the agreement is enforceable (refer to paragraphs F10–F18 of AASB 15), as the grantor can enforce its rights in the contract to require the Local Government to return the funds if the Local Government does not fulfil its specific performance obligations under the agreement (i.e. by providing literacy programs tailored to the needs of the students and annual reports to the State Government); and
- the Local Government's obligation to transfer the specific services in return for the consideration from the State Government is sufficiently specific so as to be able to determine when the obligation is satisfied.

Consequently, the Local Government concludes that the grant is a contract with a customer as defined under AASB 15. The cost to be incurred by the Local Government in providing the literacy programs can vary from the amount of the grant received.

Accounting treatment

In accordance with AASB 15, the Local Government:

- identifies each performance obligation relating to the grant;
- recognises a contract liability for its obligations under the agreement; and
- recognises revenue as it satisfies its performance obligations.

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The journal entries for the accounting treatment (to the end of the first year) are:

Initial recognition **24 June 20X0**	**Debit**	**Credit**
Cash	90,000	
Contract liability		90,000
Year 1 **30 June 20X1**		
Contract liability	30,000	
Revenue		30,000
Expenses – literacy program	32,000	
Cash		32,000

Example 8C – Multi-year conditional grant

This example contains the following additional facts:

- the Local Government receives $30,000 in the first year; and
- in the following years, the grant is paid in two equal portions, with each payment conditional on the Local Government's adequate progress toward advancing literacy in the previous year.

In this case, the Local Government recognises a receivable for the first year's grant. However, the Local Government has no control over the cash flows that are conditional on its future performance. Accordingly, the Local Government will only recognise those future cash flows once the Local Government becomes unconditionally entitled to them.

The journal entries for the accounting treatment for the first year's grant are:

Initial recognition **24 June 20X0**	**Debit**	**Credit**
Cash	30,000	
Contract liability		30,000
Year 1 **30 June 20X1**		
Contract liability	30,000	
Revenue		30,000
Expenses – literacy program	32,000	
Cash		32,000

Transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity (paragraphs 15–17)

IE6 Examples 9 and 10 illustrate the requirements in AASB 1058 regarding a transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity, and when revenue is recognised. Example 11 illustrates a transfer to enable an entity to develop a non-financial asset that cannot be recognised under Australian Accounting Standards, and hence does not meet the criteria for the accounting for transfers of financial assets set out in paragraphs 15–17.

Example 9—Cash grant for the construction of a recognisable asset – income recognised over time

On 1 July 20X1, a private sector not-for-profit school, School A, receives a cash grant of $2 million from the State Government to build an early learning centre (ELC) on the school's land to the standard specified by government department regulations applicable to early learning (EL) programs for children.

The terms of the agreement require School A to:

- construct the ELC to include two rooms for the delivery of the EL programs and retain control of the ELC;
- return all unspent, uncommitted funding after building the ELC; and

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- reimburse the State Government the whole or a portion of the grant amount (calculated on a pro-rata basis) if the ELC ceases to be used for the provision of EL programs within ten years of the date on which the funds have been fully paid.

At the end of the School's financial year (30 June 20X2), a survey of work completed indicated that the construction of the ELC was 60 percent complete and $1.2 million of the funding had been spent. The ELC was completed on 30 June 20X3 and the $2 million was fully spent.

Scope and asset recognition

School A determines:

- the $2 million grant is an asset the school acquired for consideration that is significantly less than the fair value of the grant to further the objectives of the school. Accordingly, the grant is within the scope of AASB 1058; and
- it controls a financial asset ($2 million) within the scope of AASB 9.

School A determines its agreement with the State Government is a transfer of a financial asset to enable it to construct a recognisable non-financial asset to be controlled by the school that meets the criteria in paragraph 15 of AASB 1058. That is, the agreement:

- requires the transfer of a financial asset to enable the school to acquire or construct a non-financial asset, the ELC, to the identified specification;
- relates to a non-financial asset (the ELC) that the school will be able to recognise as an asset under another Standard (AASB 116);
- does not involve a transfer of the non-financial asset to or on behalf of the State Government; and
- is enforceable, as it requires the school to refund the grant received to the State Government if the money is not used as specified in the agreement (eg non-construction of the ELC, unspent funds or EL programs cease to be provided within ten years).

School A applies paragraph 16 and determines that it does not need to recognise related amounts of the following types:

- a contribution by owners, as the grantor does not control or have an ownership interest in School A;
- a contract with a customer within the scope of AASB 15. The grant to construct an asset to be controlled by School A does not require a sufficiently specific transfer of goods or services to the grantor or another party (see paragraph F20 of AASB 15) and the requirement to continue using the school for EL programs is not sufficiently specific to know when the service has been provided. This is because it is not possible to know at the time an EL program is delivered whether it is a program that satisfies requirements of the grant;
- a lease liability as defined in AASB 16, as the agreement does not provide a right to use a specified asset;
- a financial liability within the scope of AASB 9, as there is no obligation to provide cash or another financial asset to other parties; and
- a provision within the scope of AASB 137, as the agreement specifies legal obligations and there are no other sufficiently specific constructive obligations to consider.

Accounting treatment

In accordance with paragraph 16 of AASB 1058, School A:

- identifies each obligation relating to the receipt of the cash grant and allocates the entire grant ($2 million) to those obligations – the work to be undertaken to construct the ELC;
- recognises a liability for its obligation under the agreement; and
- recognises income as it satisfies its obligation to construct the school.

In accordance with paragraph 16 of AASB 1058, income is recognised over time as the building is constructed.

The journal entries for the accounting treatment are:

Initial recognition **1 July 20X1**	**Debit**	**Credit**
Cash	2,000,000	
Obligation		2,000,000
Year 1 **30 June 20X2**		
Obligation	1,200,000	
Income		1,200,000

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	Debit	Credit
Building – work in progress	1,200,000	
Cash		1,200,000
Year 2		
30 June 20X3		
Obligation	800,000	
Income		800,000
Building – work in progress	800,000	
Cash		800,000

The entries shown as 30 June 20X2 and 20X3 represent an aggregation of the entries occurring during each financial year. For example, income recognition might occur during a financial year according to specific target points in the construction agreement, such as the completion of foundations, framing, roofing, lock-up, and so on.

Example 10—Cash grant for the construction of a recognisable asset – income recognised at a point in time

The State Government makes a cash grant of $100,000 to Hospital X to acquire 16 intensive care hospital beds that are to be controlled by the entity and used in its operations. Six beds are acquired by the hospital in its first purchase, and the remaining ten beds in a second purchase.

Scope and asset recognition

Hospital X determines:

- the $100,000 grant is an asset Hospital X acquired for consideration that is significantly less than the fair value of the grant to further the objectives of the hospital. Accordingly, the grant is within the scope of AASB 1058; and
- it controls a financial asset ($100,000) within the scope of AASB 9.

Hospital X determines its agreement with the State Government is a transfer of a financial asset to enable it to acquire a recognisable non-financial asset to be controlled by the hospital that meets the criteria in paragraph 15 of AASB 1058. That is, the agreement:

- requires the transfer of a financial asset to enable Hospital X to acquire non-financial assets (the hospital beds) that conform to identified technical specifications;
- relates to non-financial assets that the hospital will be able to recognise as assets under another Standard (AASB 116);
- does not involve a transfer of a non-financial asset to or on behalf of the State Government; and
- is enforceable, as the Government may sue for specific performance or transfer of the ownership of any assets acquired with the funds if the money is not used to acquire the non-financial assets.

Hospital X applies paragraph 16 and determines that it does not need to recognise related amounts of the following types:

- a contribution by owners, as the grantor does not control or have an ownership interest in Hospital X;
- a contract with a customer within the scope of AASB 15. The grant to acquire the hospital beds for Hospital X does not require a sufficiently specific transfer of goods or services to the grantor or another party (see paragraph F20 of AASB 15);
- a lease liability as defined in AASB 16, as the agreement does not provide a right to use a specified asset;
- a financial liability within the scope of AASB 9, as there is no obligation to provide cash or another financial asset to other parties; and
- a provision within the scope of AASB 137, as the agreement specifies legal obligations and there are no other constructive obligations to consider.

Accounting treatment

In accordance with paragraph 16 of AASB 1058, Hospital X recognises the grant initially as a liability at the point in time when it obtains control of the funds. Hospital X recognises income as it acquires and controls the hospital beds.

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The journal entries for the accounting treatment are:

	Debit	Credit
Initial recognition		
Cash	100,000	
Obligation		100,000
First purchase		
Obligation	37,500	
Income		37,500
Equipment – ICU	37,500	
Cash		37,500
Second purchase		
Obligation	62,500	
Income		62,500
Equipment – ICU	62,500	
Cash		62,500

Example 11—Cash grant for the development of an unrecognisable asset – immediate income

The State Government makes a cash grant of $170,000 to Research Institute N to research improvements to long-range rainfall prediction models for agricultural areas in the west of the State. This will develop the intellectual property of the institute.

The terms of the agreement require Institute N to:

- develop its existing prediction models with the aim of improving the accuracy of six-month and twelve-month forecasts;
- provide semi-annual budget reports that detail how the funds have been spent; and
- return any funds that remain unspent after eighteen months.

Scope and asset recognition

Research Institute N determines:

- the agreement is enforceable as grant funds are refundable if the research is not undertaken or the funds are not fully expended under the project;
- the agreement is not a contract with a customer as defined in AASB 15 since no transfer of goods or services to the Government or other parties is required;
- the $170,000 grant is an asset acquired by Institute N for consideration that is significantly less than the fair value of the grant to further the objectives of the institute. Accordingly, the grant is within the scope of AASB 1058; and
- it controls a financial asset ($170,000) within the scope of AASB 9.

Institute N determines its agreement with the State Government is a transfer of a financial asset to enable it to acquire a non-financial asset (intellectual property) to be controlled by the institute. However, the institute concludes that the agreement does not meet the criteria in paragraph 15 of AASB 1058, since the non-financial asset cannot be recognised under other Standards: AASB 138 does not permit the recognition of research as an asset. Accordingly, the institute is not able to apply paragraph 16 to recognise a liability in relation to the obligation under the agreement to develop the non-financial asset.

Institute N therefore applies paragraph 9 and determines that it does not need to recognise related amounts of the following types:

- a contribution by owners, as the grantor does not control or have an ownership interest in Institute N;
- a contract with a customer within the scope of AASB 15 (as noted above);
- a lease liability as defined in AASB 16, as the agreement does not provide a right to use a specified asset;
- a financial liability within the scope of AASB 9, as there is no obligation to provide cash or another financial asset to other parties; and
- a provision within the scope of AASB 137, as the agreement does not set out any constructive obligations – the refund obligation is recognised only in the event of a breach of the agreement or when a breach is expected.

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Accounting treatment

In accordance with paragraph 10 of AASB 1058, Institute N recognises the grant as income when it obtains control of the funds.

The journal entry for the initial recognition is:

	Debit	Credit
Cash	170,000	
Income		170,000

Volunteer services (paragraphs 18–22)

IE7 Example 12 illustrates the requirements in AASB 1058 for recognising the receipt of volunteer services as income and as an asset or an expense.

Example 12—Volunteer services

A Local Government operates 35 preschools and employs 105 qualified educators to provide a quality education program for children. The program operates five days per week for 40 weeks a year. Preschools are subject to an externally imposed staff-to-children ratio. To satisfy the required ratio while employed staff take lunch breaks across a two-hour period, the Local Government obtains the services of volunteer qualified educators for the 35 preschools to relieve the employed staff for the two-hour period each day of the program.

The Local Government assesses whether it meets the criteria in paragraph 18 (or 19) to require (or permit) the recognition of these volunteer services as income:

- the fair value of the volunteer services received can be measured reliably by reference to the casual pay rates applicable to qualified educators. The Local Government estimates the fair value of the volunteer services at $30 per hour and measures the fair value of the volunteer services received for the financial year as $420,000. This is based on the calculation of $30 × 35 (relieving educators) × 2 (hours) × 5 (days) × 40 (weeks); and
- the services would have been purchased if they had not been donated, in order to meet the staff-to-children ratio at all times.

Accounting treatment

As the Local Government meets the criteria in paragraph 18, it is required to recognise volunteer services income of $420,000. The services of the volunteers do not result in the acquisition of an asset, and so an equivalent expense is also recognised.

The journal entry to recognise the volunteer services for the year is:

	Debit	Credit
Expenses – Preschools – Volunteers	420,000	
Income		420,000

Disclosure

Restrictions (paragraph 37)

IE8 Example 13 illustrates disclosures about externally imposed restrictions that limit or direct the purpose for which resources controlled by an entity may be used. Such disclosures are encouraged by this Standard but not required. This example extends Example 6A to illustrate possible disclosures about time restrictions on the expenditure of grant monies received. This example illustrates voluntary disclosures about restricted and unrestricted donation income in the Statement of Profit and Loss and Other Comprehensive Income, as well as disclosures relating to restricted net assets. Example 7B also illustrates voluntary disclosures of restrictions.

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Example 13—Voluntary disclosure regarding restrictions on timing of expenditure

As per Example 6A, Charity B receives a government grant of $2.4 million on 31 May 20X6, which is refundable if the money is not spent in the period 1 July 20X6 to 30 June 20X7. The grantor specifies that the grant must be used in accordance with the charity's overall objectives. The agreement does not specify the services that the grant must be used for.

Charity B concludes that the transaction is not a contract with a customer as defined under AASB 15. The charity determines that there are no related amounts to recognise in accordance with paragraph 9 of AASB 1058. Charity B does not have a liability under AASB 9 for a potential breach of contract, as it has the discretion not to spend the grant money before 1 July 20X6. Therefore, Charity B recognises income of $2.4 million in accordance with paragraph 10 on 31 May 20X6, on recognition of the financial asset in accordance with AASB 9.

Voluntary disclosure

Charity B elects to make the following disclosures in its financial statements for the year ended 30 June 20X6 to identify donations that are subject to some form of restriction in how the charity can use them, such as time restrictions imposed by donors.

Summary of Statement of Profit and Loss and Other Comprehensive Income of Charity B

	20X6 $	20X5 $
Donation income – unrestricted	800,000	700,000
Donation income – restricted	2,400,000	3,000,000
Other revenue	850,000	820,000
Total revenue	**4,050,000**	**4,520,000**
Total expenses	1,700,000	1,300,000
Total comprehensive income	**2,350,000**	**3,220,000**
Total comprehensive income – unrestricted	(50,000)	220,000
Total comprehensive income – restricted	2,400,000	3,000,000

Notes to the Financial Statements

Note X – Changes in Restricted Net Assets	20X6 $	20X5 $
Opening balance	3,000,000	900,000
Grant income received – time restrictions	2,400,000	3,000,000
Grant funds – time restrictions expired during the year	(1,000,000)	(900,000)
Closing balance	**4,400,000**	**3,000,000**

During the year, Charity B received a grant of $2.4 million from the government. This grant is to be spent in accordance with our charter in the 20X6/X7 year. Accordingly, the full amount of the grant received is treated as restricted net assets at the current reporting date.

The grant of $3 million received in June 20X5 was restricted by the donor (Outback Health Services Trust) to the provision of health services over a three-year period from 1 July 20X5. Therefore, $2 million of this grant continues to be identified as restricted net assets at the current reporting date.

Transition (paragraphs C2–C7)

IE9 Example 14 illustrates the modified retrospective initial application of this Standard to peppercorn leases.

Example 14—Peppercorn leases and modified retrospective initial application

School A, a not-for-profit school, was built on land leased to it by Church B. Church B (the lessor) leases the land to School A (the lessee) for a payment of $10 per year for 99 years (ie a peppercorn lease). On the date of transition to this Standard, the present value of the remaining lease payments is $100.

School A has a reporting period ending 30 June and recognises a right to use land under AASB 16 for the first time for its reporting period ending 30 June 2020. The fair value of the right of use of the land is $2 million at 1 July 2019. Prior to applying AASB 1058, School A had not previously recognised a right-of-use asset for land or a lease liability.

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AASB 1058 (effective date 1 January 2019) also applies to School A for the first time for its reporting period ending 30 June 2020. As there is a significantly below-market lease at inception of the lease, School A identifies that the transaction is within the scope of AASB 1058 and elects to apply the modified retrospective approach permitted on transition to AASB 1058.

School A accounts for the peppercorn lease in accordance with the transition requirements of AASB 1058 by:

- recognising the right-of-use asset for the land as at 1 July 2019 at the fair value of $2 million;
- recognising the lease liability under AASB 16 of $100 (this accounting treatment is unaffected by AASB 1058); and
- recognising the difference between the fair value of the right-of-use asset and the lease liability as an adjustment to the opening balance of School A's retained earnings as at 1 July 2019.

Accounting treatment

The journal entry for the accounting is:

1 July 2019	**Debit**	**Credit**
Right-of-use asset – land	2,000,000	
Lease liability		100
Opening retained earnings		1,999,900

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Compilation details
Accounting Standard AASB 1058 *Income of Not-for-Profit Entities* (as amended)

Compilation details are not part of AASB 1058.

This compiled Standard applies to annual periods beginning on or after 1 July 2026 but before 1 January 2028. It takes into account amendments up to and including 15 December 2022 and was prepared on 16 October 2026 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 1058 (December 2016) as amended by other Accounting Standards, which are listed in the table below.

Table of Standards

Standard	Date made	FRL identifier	Commence-ment date	Effective date *(annual periods … on or after …)*	Application, saving or transitional provisions
AASB 1058	9 Dec 2016	F2017L00042	31 Dec 2018	*(beginning)* 1 Jan 2019	see (a) below
AASB 17	19 Jul 2017	F2017L01184	31 Dec 2022	*(beginning)* 1 Jan 2023	see (b) below
AASB 2018-3	8 Aug 2018	F2018L01152	31 Dec 2018	*(beginning)* 1 Jan 2019	see (c) below
AASB 2018-8	24 Dec 2018	F2019L00023	31 Dec 2018	*(beginning)* 1 Jan 2019	see (d) below
AASB 2019-6	16 Dec 2019	F2020L00055	31 Dec 2019	*(beginning)* 1 Jan 2019	see (c) below
AASB 1060	6 Mar 2020	F2020L00288	30 Jun 2021	*(beginning)* 1 Jul 2021	see (e) below
AASB 2021-7	20 Dec 2021	F2021L01883	31 Dec 2021	*(beginning)* 1 Jan 2022	see (f) below
AASB 2022-8	15 Dec 2022	F2023L00014	31 Dec 2022	*(beginning)* 1 Jan 2023	see (g) below
AASB 2022-9	15 Dec 2022	F2023L00015	30 Jun 2026	*(beginning)* 1 Jul 2026	see (h) below
AASB 18	7 Jun 2024	F2024L00708	31 Dec 2026	NFP & superannuation entities *(beginning)* 1 Jan 2028	not compiled*

* The amendments made by this Standard are not included in this compilation, which presents the principal Standard as applicable to annual periods beginning on or after 1 July 2026 but before 1 January 2028.

(a) Entities may elect to apply this Standard to annual periods beginning before 1 January 2019, provided that AASB 15 *Revenue from Contracts with Customers* is also applied to the same period.

(b) Entities may elect to apply this Standard to annual periods beginning before 1 January 2023, provided that AASB 9 *Financial Instruments* is also applied on or before the date of initial application of AASB 17. (AASB 17 was amended prior to its mandatory application by various amending Standards, including AASB 2022-8 *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments*, made by the AASB on 15 December 2022.)

(c) Entities may elect to apply this Standard to annual periods beginning before 1 January 2019.

(d) Entities may elect to apply this Standard to annual periods beginning before 1 January 2019, provided that AASB 1058 *Income of Not-for-Profit Entities* is also applied to the same period.

(e) Entities may elect to apply this Standard to annual periods beginning before 1 July 2021.

(f) Entities may elect to apply this Standard to annual periods beginning before 1 January 2022.

(g) Entities may elect to apply this Standard to annual periods beginning before 1 January 2023.

(h) Entities may elect to apply this Standard to annual periods beginning before 1 July 2026.

Table of amendments to Standard

Paragraph affected	How affected	By … [paragraph/page]
7	amended	AASB 17 [page 84]
Aus7.1	added deleted	AASB 2022-8 [page 14] AASB 2022-9 [18]
42	repealed	*Legislation Act 2003*, s. 48D
C1A	added	AASB 2019-6 [7]
C1A	added	AASB 17 [page 84]
C10	amended	AASB 2018-8 [page 8]
C10A	added	AASB 2018-8 [page 9]

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Paragraph affected	How affected	By … [paragraph/page]
C11	amended	AASB 2018-8 [page 9]
Appendix D	deleted	AASB 2021-7 [47]
Appendix E	added replaced	AASB 2018-3 [6] AASB 1060 [page 69]

Table of amendments to guidance

Paragraph affected	How affected	By … [paragraph/page]
Example 6	amended	AASB 2021-7 [48]
Example 7	amended	AASB 2021-7 [48, 49]
Example 8	amended	AASB 2021-7 [48]

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 1058.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in AASB 1058. It sets out the reasons why the AASB 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 this Standard and AASB 15 *Revenue from Contracts with Customers*, the recognition and measurement requirements for transactions 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. Diverse interpretations existed, with some entities recognising transactions with return obligations and specified performance outcomes as reciprocal transactions and some not.

BC4 Constituents were particularly 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. The Board heard that constituents who are preparers find it difficult to discuss financial information with grantors and donors, and challenging to explain why a not-for-profit entity needed additional resources when the financial statements indicated no such need. Users noted they did not think the financial statements were reflective of the economic reality of a not-for-profit entity's financial circumstances. Having regard to the feedback from constituents, the Board decided to undertake a project to conduct a fundamental review of the income recognition requirements applying to not-for-profit entities.

BC5 The Board observed that the International Accounting Standards Board had completed developments in the accounting for revenue with the issue of IFRS 15 *Revenue from Contracts with Customers* in May 2014. The Board noted it still needed to determine what, if any, amendments and guidance would be required to enable not-for-profit entities to apply the equivalent Australian Accounting Standard, AASB 15. In addition, the Board noted that the application of the performance obligation approach to revenue recognition adopted in AASB 15, using a broader concept of customer, had the potential to resolve some of the issues noted with AASB 1004. Consequently, the Board considered that this was an appropriate time to undertake a project to review the income recognition requirements applying to not-for-profit entities.

BC6 As part of its current project, the Board noted there is currently divergence in practice in the accounting for leases with significantly below-market terms and conditions, such as 'peppercorn' leases where a nominal amount is made as payment to the lessor. Some entities consider AASB 117 *Leases* takes precedence over AASB 1004 and accordingly, currently recognise such leases at nominal values; others consider the reverse applies and recognise such leases at fair value, together with a related contribution. The Board decided its project should also clarify the accounting for such leases.

BC7 The Board also observed that various Australian Accounting Standards required a not-for-profit entity to recognise assets received at fair value (or current replacement cost, in relation to inventories) only where the asset had been acquired for no or nominal consideration (for example, AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*). The Board perceived there to be a gap in the accounting for those transactions where an asset has been acquired for consideration that is below market but is more than nominal. The Board noted that under existing recognition and measurement rules at that time, an entity would likely not have recognised any income on the transaction, but measured the asset acquired at the amount of the consideration transferred. The Board considered that, in many instances, such transactions were unlikely to be conceptually different to those for which no consideration was transferred, and consequently decided to also consider the accounting for such transactions as part of this project.

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Previous stages of this project

BC8 In previous stages of this project, the Board had previously exposed proposals on income recognition requirements for similar transactions as part of the following Exposure Drafts:

(a) ED 125 *Financial Reporting by Local Governments* (October 2003). This ED also addressed other issues;

(b) ED 144 *Proposed Guidance to accompany AASB 1004* Contributions (November 2005);

(c) ED 147 *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)* (February 2006); and

(d) ED 180 *Income from Non-exchange Transactions (Including Taxes and Transfers)* (June 2009).

BC9 However, having regard to constituent feedback and developments in accounting internationally subsequent to the issue of each such Exposure Draft, the Board had decided not to finalise those previous Exposure Drafts. The last such Exposure Draft, ED 180, was closely based on IPSAS 23 *Income from Non-exchange Transactions (Taxes and Transfers)*. At that time, the Board decided, having regard to feedback received on the ED and the progress the IASB was making on a project to replace IAS 18 *Revenue*, not to finalise the proposals set out in ED 180, but instead to refocus its project following issue of IFRS 15 *Revenue from Contracts with Customers*.

Alternative approaches considered

BC10 In developing this Standard, the Board considered whether to base the income recognition and measurement principles for a not-for-profit entity on those set out in:

(a) AASB 1004 *Contributions*;

(b) IPSAS, including IPSAS 23;

(c) AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*; or

(d) AASB 15 *Revenue from Contracts with Customers*.

BC11 The Board decided not to develop proposals based on the accounting specified by AASB 1004 (as in force at that time), having regard to constituent feedback leading to the Board undertaking the project. In addition, the Board observed that the approach in AASB 1004 does not acknowledge that a non-reciprocal transfer may be made on terms and conditions representative of a liability as defined in the *Framework for the Preparation and Presentation of Financial Statements*.

Using the IPSAS 23 exchange/ non-exchange approach

BC12 Unlike the income recognition requirements in AASB 1004, IPSAS 23 requires liabilities to be recognised in relation to non-exchange transactions when transferred assets are received on the condition that the recipient entity must:

(a) consume the future economic benefits embodied in the transferred assets as specified; or if not,

(b) return the future economic benefits to the transferor.

BC13 The Board observed that it had previously considered adopting an approach similar to that used in IPSAS, and exposed this for comment as part of ED 180. However, the Board had received constituent feedback that the:

(a) definition of a 'non-exchange transaction' in IPSAS (a transaction in which "an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving equal value in exchange") was similar to the non-reciprocal definition and therefore would still be ambiguous and difficult to apply in practice; and

(b) the notion of a liability in ED 180 was too narrow.

BC14 Having regard to the above, the Board decided not to develop proposals based on IPSAS in this project for the following reasons (see also paragraphs BC177–BC179):

(a) IPSAS employs an exchange/non-exchange distinction to determine the accounting for income; with non-exchange being defined similarly to non-reciprocal in Australian Accounting Standards. The Board observed that part of the reason for undertaking this project was in response to constituent feedback of challenges in identifying a transaction as a reciprocal/non-reciprocal transaction, and concerns that the consequential accounting did not reflect the true underlying financial performance

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of the entity. Accordingly, the Board considered that basing its project proposals on existing IPSAS would not meet its objective in undertaking this project; and

(b) the IPSASB is currently developing new standards-level requirements and guidance on revenue to amend or supersede that currently in IPSAS. As part of that project, the IPSASB is expected to have regard to the requirements set out in IFRS 15. The IPSASB is not expected to complete its project before 2019. Having regard to the effective date of AASB 15, the Board considered that it is necessary for it to develop guidance at this time to assist not-for-profit entities in implementing AASB 15 in advance of the IPSASB project.

Extending the scope of AASB 120

BC15 As part of its deliberations about an appropriate approach, the Board observed that extending the scope of AASB 120 to not-for-profit entities would allow government grants to be accounted for under a strict transaction-neutral approach. However, the Board was reluctant to do so, given the:

(a) limited scope of transfers addressed by AASB 120 compared to the varied transfers received by a not-for-profit entity; and

(b) application of the recognition and presentation requirements in that Standard could result in an entity's assets being materially understated. For example:

(i) government grants of non-monetary assets may be measured at a nominal amount;

(ii) government grants relating to assets may be deducted in determining the carrying amount of the assets; and

(iii) grants are not to be recognised by an entity until there is reasonable assurance that the entity will comply with the conditions attaching to the grants and the grants will be received (however, conditions attaching to grants are relevant to whether liabilities exist, not to whether assets have been received).

BC16 The Board observed that extending the application of requirements in AASB 120 to all transfers of a not-for-profit entity would require a not-for-profit entity to defer income recognition for every form of transfer until there is reasonable assurance that the entity will comply with any conditions attached to the transfer. AASB 120 does not define 'conditions', and consequently, the Board was concerned there would be inconsistency in application of the requirements. For example, whether conditions include only performance conditions (as used in the IFRS for SMEs), akin to performance obligations of the form specified by AASB 15, or whether conditions include other conditions. The Board also considered it unclear whether the 'conditions' of some transfers, for example, an endowment that must be used to provide an annual scholarship, could ever be said to be met. Accordingly, the Board was not convinced that developing proposals based on AASB 120 would achieve its objectives in undertaking this project.

BC17 In addition, the Board discussed recent international developments for the recognition of income, and noted AASB 120 was less consistent with current conceptual thinking (compared to AASB 15) as it does not articulate the nature of obligations giving rise to a liability rather than income, or when these obligations can be said to have been satisfied. The Board observed that the principles in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* had not been reconsidered fully at the time of issue of IFRS 15. However, the IASB considered the approach in IAS 20 when developing the *IFRS for SMEs* Standard. The IASB ultimately decided to adopt an approach that refers to the recognition of income when performance conditions are satisfied. This approach may be considered to be similar to the IFRS 15 performance obligation approach. Further, the Board observed that the IASB has no current plans to review IAS 20. Having regard to the significance of grants, taxes, donations and similar transfers to the income of a not-for-profit entity, the Board decided to confirm again its 2004 decision not to extend AASB 120 to apply also to not-for-profit entities.

Based on AASB 15

BC18 The Board issued AASB 15 in December 2014, incorporating IFRS 15 *Revenue from Contracts with Customers*, and superseding AASB 118 and AASB 111 (among other pronouncements). The AASB 15 revenue recognition model replaced the risk and rewards approach of AASB 118, introducing a performance obligation approach to the recognition of revenue. The five-step model in AASB 15 focuses on:

(a) identifying the contract;

(b) identifying performance obligations;

(c) determining the transaction price;

(d) allocating the transaction price; and

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(e) recognising revenue.

BC19 In the process of issuing AASB 15, the AASB decided that, consistent with AASB 118, AASB 15 should apply to not-for-profit entities as well as for-profit entities. In this project, the AASB considered whether income from non-reciprocal transfers should continue to be treated differently from revenue from reciprocal transfers. The Board concluded that, for any entity, a performance obligation (that is, a promise to transfer a good or a service to a customer in a contract) gives rise to a contract liability when the customer pays consideration for the good or service. Consequently, the Board decided that the principles in AASB 15 on performance obligations should apply to any entity, whether for-profit or not-for-profit, in the private sector or public sector.

BC20 Overall, the Board considered the financial reporting of not-for-profit entities would be best improved by, as a starting point, aligning the applicable recognition and measurement principles with the principles of AASB 15, and drawing on the guidance available in IPSAS where not inconsistent with Australian Accounting Standards. This is in keeping with the Board's policy on transaction neutrality.

Issue of ED 260

BC21 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 ED 180 and the requirements of AASB 15. 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.

BC22 Part B of ED 260 proposed the issue of a draft Standard establishing the principles that a not-for-profit entity shall apply to report useful information to users of financial statements about the nature and amount of assets, liabilities, income and cash flows arising from inflows (or net inflows) of resources from donations, grants, taxes, and similar transactions and events. The ED proposed that income is immediately recognised for the excess of an asset acquired over any related liabilities or contributions by owners. Related liabilities include contract liabilities arising in a contract with a customer within the scope of AASB 15.

BC23 In June 2015, the Board held roundtables in Melbourne, Canberra, Brisbane and Sydney to seek feedback on its proposals set out in ED 260. The ED proposals were also presented at various forums, workshops and discussion groups. In addition, the Board conducted targeted meetings to help ensure the Board understood the implications of its proposals to entities with different not-for-profit objectives (for example, charities and local governments).

BC24 The Board received feedback on its proposals through receipt of 34 formal comment letters on ED 260. The Board also obtained feedback via means such as 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. Many respondents to ED 260 expressed support for no longer basing income recognition requirements on a reciprocal/non-reciprocal transfer distinction as previously specified by AASB 1004, but on requirements based on satisfying a performance obligation.

BC25 Many respondents to ED 260 qualified their support that a resulting Standard would result in financial statements that would be useful to users. The main concerns raised about the proposals were:

(a) the proposals would not fully resolve the current dissatisfaction with existing income recognition requirements as entities would not be able to fully defer income recognition to such time as related expenses are recognised. The Board noted that responding fully to such concerns would result in liabilities being recognised inconsistent with the *Framework for the Preparation and Presentation of Financial Statements* and that with no conceptual basis it would be difficult to distinguish which receipts should be deferred and which should not. In response, the Board decided to add disclosure encouraging entities to disclose information in the financial statements (including on the face of the financial statements) of externally imposed restrictions on an entity. The Board considered this would go some way to addressing constituent concerns that financial performance is misrepresented to users as it allows preparers to better explain their financial performance to others;

(b) the proposals were presented in an overly complicated manner, and consequently the interaction with other Australian Accounting Standards was not necessarily clear. In response, the Board decided to redraft the pronouncements to clarify the specified requirements when finalising this Standard (and AASB 2016-8), and to add further illustrative examples to illustrate the operation of the Standard, including its interaction with AASB 15 and other Australian Accounting Standards. As part of this, the Board decided that this Standard should not address the recognition of assets that are already the subject of existing Australian Accounting Standards (see paragraphs BC58–BC59).

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BC26 Given the significance of this project to not-for-profit entities, the Board decided to establish a Project Advisory Panel consisting of preparers and advisors. The Panel provided valuable insights to the AASB during the Board's redeliberations of the ED, enabling the Board to make better informed decisions about whether, and how, to finalise the proposals in ED 260.

BC27 In addition, the Board decided to invite public comment on draft pronouncements incorporating the Board's decisions following completion of its redeliberations. Draft Standards were issued in September 2016 for public comment primarily seeking feedback on matters constituents considered to be a 'fatal flaw' with the pronouncements. The Board received seven formal submissions, and also obtained feedback via various presentations and meetings held with other constituents and with Panel members.

Finalisation of ED 260

BC28 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 largely as exposed. The Board considered the identified benefits of the revised requirements to exceed the costs of the revised requirements.

BC29 The Board observed some of the costs of the new requirements to be:

(a) costs of changing systems and processes to reflect the revised requirements;

(b) costs of reviewing the terms of existing contracts, funding agreements and similar to determine the impact on transition. The Board observed that it expects the operation of the transitional provisions to largely negate these costs;

(c) increased costs associated with the requirement to measure more assets at fair value (or current replacement cost, in relation to inventories) at initial recognition. The Board observed that while the consequential amendments made by this Standard will require more assets to be recognised and measured at fair value, these requirements better reflect the value transferred to the entity. The Board noted this Standard does not require assets (including assets obtained in a 'peppercorn' lease where a nominal amount is made as payment to the lessor) to be measured at fair value on an ongoing basis, but only on initial recognition (or in some instances, on transition to this Standard). Further, the Standard does not require the valuations to be conducted by a professional valuation expert. In addition, the Board noted the Standard does not require assets in the form of donated inventory to be recognised and measured at current replacement cost where the item donated is not material;

(d) increased costs associated with the requirement to separately identify components not related to a transfer of goods or services. In response, the Board has limited the instances in which an entity is required to separately account for such components in a contract with a customer, and only requires the accounting to be applied where the component is material;

(e) increased costs associated with identifying whether transactions are contracts with customers within the scope of AASB 15, or to be accounted for in accordance with this Standard. The Board noted it had added further guidance on enforceability and further illustrative examples to the Standard to assist entities in understanding whether the accounting for income arising from an arrangement was likely to be addressed by AASB 15 or by this Standard; and

(f) costs of educating users of the financial statements of the new approach.

BC30 The Board considered some of the benefits of the revised requirements to be:

(a) the approach adopted in AASB 1058 and AASB 15 (as amended by AASB 2016-8) best responds to constituent concerns about the operation of the income recognition requirements formerly set out in AASB 1004, compared to the alternatives considered (see paragraphs BC10–BC17 above);

(b) the Board's policy of transaction neutrality means that the application of AASB 15 to not-for-profit entities needed to be addressed at this time; however the concept of performance obligations in AASB 15 has enabled a fundamental change to income recognition for not-for-profit entities. The performance obligation approach is more comprehensible than the reciprocal approach of AASB 1004;

(c) AASB 1058 and AASB 15 (as amended by AASB 2016-8) provide a better reflection of the underlying substance of transfers made to a not-for-profit entity recipient – under the revised principles, in general, income is deferred where an entity has a contractual obligation to deliver specified goods or services;

(d) there will be greater transparency of an entity's assets and liabilities which results in better accountability and stewardship. Assets will be measured at fair value (or current replacement cost,

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in relation to inventories) at initial recognition where the asset has been acquired for consideration that is significantly less than its fair value, or if no consideration was provided, and the difference is principally to enable the entity to further its objectives. This helps address the current ambiguity in accounting by a not-for-profit lessee for leases with significantly below-market lease payments and for other assets where the consideration is more than nil or nominal amount but significantly less than the asset's fair value;

(e) while the principles in this Standard do not completely address constituent concerns about potential misrepresentation of the not-for-profit entity's financial position and financial performance to users, the Board has managed this through encouraging entities to disclose information distinguishing for users amounts that are restricted in their use (but which may have been recognised as income immediately in accordance with this Standard). The Board considered that, as there is no contractual liability, the entity has the ability to use the assets acquired in alternative ways if that best reflects the needs of the entity, although the entity may currently have every intention of continuing to use the assets acquired in a designated way;

(f) the revised principles are more conceptually consistent with the *Framework for the Preparation and Presentation of Financial Statements* as they require the recognition of a liability (a contract liability in accordance with AASB 15 or obligation to construct an asset in accordance with this Standard) where an obligation exists.

BC31 The Board noted that while neither the underlying approach exposed nor the scope of the transactions the project was intended to address has changed between ED 260 and the final pronouncements, in response to the feedback received, it had amended or clarified various proposals in ED 260, and finalised them in a form different to that exposed. More significant changes from the ED include:

(a) asset recognition requirements to be specified only by other Australian Accounting Standards. However, the Board observed this Standard makes consequential amendments to other Standards to extend the requirement to measure recognised assets at fair value (or current replacement cost, in relation to inventories) on initial recognition to a broader range of assets;

(b) AASB 1058 to specify requirements for an in-substance transfer of a non-financial asset to the entity for its own use;

(c) additional disclosures;

(d) additional transitional provisions;

(e) additional guidance and illustrative examples; and

(f) deferral of the effective date.

BC32 The Board considered that, overall, its decisions on this project have not significantly departed from those exposed in a manner that adversely affects entities applying the Standard. 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 and illustrative examples to AASB 15 to assist not-for-profit entities in applying the Standard. In addition, AASB 2016-8 adds implementation guidance to AASB 9 on the initial measurement and recognition of non-contractual receivables arising from statutory requirements;

(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.

BC33 The remainder of this Basis for Conclusions primarily focuses on issues pertaining to transfers of resources to a not-for-profit entity that are not contracts with customers within the scope of AASB 15, and the Board's decisions with respect to contributions by owners. The Board's considerations in reaching the conclusions in AASB 2016-8 are set out in the Basis for Conclusions to AASB 2016-8.

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Objective

BC34 The Board noted that it had proposed a resulting Standard to address the accounting for inflows of resources arising from donations, grants, taxes, and similar transactions and events. In finalising this Standard, the Board decided to express the objective of this Standard in:

(a) a broader manner, to avoid inadvertently excluding some transactions from the scope of the Standard; and

(b) 'plainer' language, so that users can clearly understand the purpose of the Standard.

Scope

Income, including revenue, of not-for-profit entities

BC35 The Board considered whether to define the scope of AASB 1058 based on revenue of not-for-profit entities (except revenue within the scope of AASB 15 or another Australian Accounting Standard) or on income of not-for-profit entities arising from inflows of resources. The Board noted:

(a) revenue is defined in AASB 15 as income arising the course of an entity's ordinary activities; and

(b) some types of income of not-for-profit entities (such as bequests and other donations, which historically fell within the scope of AASB 1004) can arise from transactions and other events outside the course of an entity's ordinary activities. Limiting the scope of AASB 1058 to revenue could therefore omit requirements and guidance on potentially significant types of income of not-for-profit entities and only partially meet the objective of this project.

BC36 Accordingly, the Board based its proposals in ED 260 on the concept of income of an not-for-profit entity arising from inflows of resources because, in its view, revenue of not-for-profit entities did not capture all transactions that the Board intended AASB 1058 to provide requirements for. The Board observed that this does not mean that income recognised in accordance with this Standard is not also revenue of a not-for-profit entity; the extent to which amounts recognised in accordance with this Standard meets the definition of revenue to the entity (that is, income arising the course of an entity's ordinary activities) is a matter of facts and circumstances.

Assets acquired for more than no or nominal cost, but significantly less than fair value

BC37 In ED 260, the Board proposed that, if:

(a) a vendor in a transaction in which a not-for-profit entity acquires an asset, or

(b) a lessor, in a finance lease entered into by a not-for-profit entity;

makes a donation in the sale or lease contract, the not-for-profit entity should measure the cost of the asset at fair value. Accordingly, a broader range of assets may need to be measured at fair value on initial recognition than currently required, and a corresponding amount may be recognised as income to the extent no related liabilities or equity contributions arise on the transaction.

BC38 The Board decided to finalise its proposals in this regard, largely as proposed, by way of consequential amendments to various other Australian Accounting Standards. The Board's considerations in forming this decision are set out in paragraphs BC60–BC68 below.

Significantly less than fair value principally to enable the entity to further its objectives

BC39 Having regard to feedback received, in its redeliberations the Board decided to finalise these proposals, but to shift the focus of AASB 1058 away from emphasising the identification of donations, grants and similar transfers towards requiring an entity to identify whether an asset (other than volunteer services) was acquired for consideration that was significantly less than fair value principally to enable the entity to further its objectives. The Board considered this does not change the scope exposed in ED 260, but:

(a) avoids inadvertently limiting the extent of transactions that might give rise to income on initial recognition of an asset; and

(b) gives entities a clear indication of the transactions that are captured within the scope of AASB 1058;

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(c) has the benefit of not requiring the entity to make an assessment of the transferor's intent; and

(d) continues to exclude acquisitions of assets at discounts attributable to auction, distress sale and trade discount pricings.

BC40 In developing its articulation of a revised scope for the Standard, the Board was conscious it did not intend for this Standard to apply to transactions such as trade discounts and distress sales, for which the consideration paid for an asset may be significantly below the asset's fair value. The Board's view is that such discounts, where made available to all market participants (or a particular market segment) regardless of the participants' objectives, are not specific to the not-for-profit sector: other Australian Accounting Standards specify the accounting for such transactions.

BC41 The Board observed that 'significant' is a term used in other Standards, and considered its meaning therefore would be readily understandable by users of this Standard. The Board also noted that expressing the scope of AASB 1058 by reference to transactions "significantly less than fair value …" means that transactions where the consideration is only marginally less than fair value are not expressly covered. Therefore, such transactions may be accounted for consistently with the requirements of AASB 1058 or with the accounting applicable to for-profit entities. Although this could mean less consistency in the accounting by not-for-profit entities for all asset transactions with consideration less than fair value, the Board regarded this approach as an appropriate balancing of the costs and benefits in accounting for transactions with consideration that is less than fair value, but not significantly less than fair value.

BC42 Some respondents to ED 260 were concerned that the Standard would require the not-for-profit recipient to make an assessment of the transferor's intentions in undertaking a transaction with the entity. For this reason, in developing its articulation of a revised scope for AASB 1058, the Board wanted to avoid using language that implied a need to assess the vendor's intentions. Accordingly, the Board decided to articulate in the scope that its interest is in transactions occurring principally to enable the entity to further its objectives. The Board considered the term 'principally':

(a) provides a link between the significantly reduced purchase price (compared to fair value) and the purpose of that reduction being to enable a not-for-profit entity to further its objectives;

(b) is more likely to be better understood as it is also currently used in Commonwealth grant applications and in taxation law (for example, in relation to principal place of business); and

(c) is useful as there may be more than one reason for setting the terms and conditions of the transactions.

BC43 The Board considered using the term 'specifically' or 'particularly' in place of 'principally'. However, the Board decided not to finalise the Standard using this language due to:

(a) the similarity of the term 'specifically' to 'sufficiently specific' (as used in AASB 15); and

(b) concern that the term 'particularly' is too broad, and could give rise to differences in practice as to whether certain transactions are within the scope of this Standard.

BC44 This Standard makes consequential amendments to AASB 16 *Leases* to require a not-for-profit lessee to measure the right-to-use asset in a lease at its fair value where the lease has been undertaken on significantly below-market terms and conditions principally to enable the entity to further its objectives. AASB 117 is similarly amended in respect of the leased asset recognised in a finance lease. The Board observed that the lease payments (the consideration) to acquire the asset in such transactions will be significantly less than the asset's fair value. Consequently, leases undertaken on significantly below-market terms and conditions principally to enable the entity to further its objectives are within the scope of AASB 1058.

Scope exclusions

BC45 While not wanting to limit the extent of transactions that might give rise to income on initial recognition of an asset, the Board acknowledged that in some cases other Standards provide more detailed income recognition requirements. Accordingly, the Board decided to exclude transactions within the scope of the following Standards from AASB 1058:

(a) AASB 3 *Business Combinations*;

(b) AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*; and

(c) AASB 112 *Income Taxes*.

BC46 The Board expects it would be rare for a not-for-profit entity to acquire an asset for consideration in the form of share-based payment valued significantly below the asset's fair value, on terms made principally in order

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to further the entity's objectives. However, the Board decided to exclude AASB 2 *Share-based Payment* from this Standard for avoidance of doubt.

BC47 The Board also decided to exclude, from the scope of AASB 1058:

(a) licences outside the scope of AASB 15 (see paragraph BC48 below); and

(b) restructures of administrative arrangements within the scope of AASB 1004 *Contributions* (see paragraph BC49).

BC48 In its redeliberations on the ED, the Board discussed a concern that AASB 1058 would apply to a transfer of a licence to a not-for-profit entity, where that transaction is not within the scope of AASB 15. The Board heard that the accounting for licences in the public sector is a significant issue, and observed that the Board had not before considered whether public sector licences should be accounted for in accordance with AASB 1058, or whether the licences are more appropriately accounted for by analogy to AASB 15. The Board signalled its intention to undertake a separate project on the accounting for public sector licences, and as it did not want to presuppose the accounting outcomes of that project, decided to exclude licences that are outside the scope of AASB 15 from this Standard. The Board noted that not-for-profit entities with such licences should develop an accounting policy in accordance with AASB 108, and that this policy could extend to applying the accounting set out in AASB 1058 by analogy.

BC49 The Board noted that the requirements of AASB 1058 could be interpreted to apply to restructures of administrative arrangements, which are addressed in AASB 1004 (see paragraph BC173 below).To avoid confusion as to which Standard applies to these transactions, the Board decided to exclude them from the scope of AASB 1058.

Terminology

BC50 NFP entities might acquire, or obtain, an asset in a number of circumstances. Various terms are commonly used to describe acquisitions of assets under terms and conditions that also provide a significant benefit to an entity, including 'grant', 'donation', 'bequest', 'assistance' and 'endowment'. These terms are not necessarily synonymous but are at times used interchangeably. Therefore, while these terms might be familiar to not-for-profit entities the Board decided not to develop accounting requirements based upon them.

BC51 When considering the underlying transactions associated with the above terms the Board observed the term used for a particular transaction is not important; rather, it is the characteristics or substance of the transaction that should determine the appropriate accounting. Accordingly, the Board decided to express the principles in AASB 1058 as far as possible without reference to such commonly used terminology.

BC52 However, the Board noted in order for AASB 1058 to remain accessible to preparers and other users, it could not completely avoid the use of such terms, especially in guidance material accompanying the Standard. Accordingly, the Board decided to clarify in AASB 1058 that an entity considers the substance, rather than the form, of transfers of resources to a not-for-profit entity for consideration significantly less than fair value principally to enable the entity to achieve its objectives in identifying the applicable requirements of AASB 1058.

Extending the scope to not-for-profit transferors and for-profit entities

BC53 The Board considered whether the scope of its project should be extended to address the accounting by not-for-profit transferors in arrangements giving rise to inflows of resources to a not-for-profit entity. The Board decided not to address this issue as part of the current project for the following reasons:

(a) the Board aims to address not-for-profit specific requirements for a topic as promptly as possible after an IFRS Standard for a similar topic is issued; and

(b) to ensure timely issue of these requirements. The Board was concerned broadening the scope of this project to address transferor accounting would raise issues not addressed in IFRS 15, and therefore delay the finalisation of pronouncements under this project.

BC54 The Board also considered whether the principles in this Standard should be extended to similar transactions of for-profit entities. The Board noted its policy on IFRS compliance for such entities, and decided not to extend the application of this Standard to these entities. The Board confirmed its decision as part of its redeliberations on this project, not having received significant contrary feedback in this regard. Accordingly, the accounting for certain transfers (eg government grants) may differ between that of a for-profit applying AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* and a not-for-profit public sector entity applying this Standard.

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Recognition and measurement

Approach taken in this Standard

BC55 The Board considered that AASB 1058 should operate on a 'residual' basis, meaning that entities first apply other applicable Australian Accounting Standards to a transaction before recognising income in accordance with AASB 1058. This approach was exposed in ED 260 and generally accepted.

BC56 To assist readers of AASB 1058 the Board decided to insert common examples of 'related amounts' that could be recognised on the acquisition of an asset. These include:

(a) contributions of equity;

(b) revenue or a contract liability arising from a contract with a customer;

(c) a lease liability;

(d) a financial instrument; or

(e) a provision.

BC57 Many respondents to ED 260 expressed support for the inclusion of examples illustrating the interaction of other Australian Accounting Standards with AASB 1058. The Board considered constituent feedback seeking further specific examples, and improved articulation of how each example illustrates the principles of the Standard. The Board was conscious that illustrative examples cannot consider all situations, and that the particular circumstances of each transaction must be considered to determine the appropriate accounting treatment. However, in response to the feedback received, the Board decided to add several further examples to assist users of the Standard to understand the intended operation of the Standard, and to simplify examples proposed in ED 260.

Recognition of assets

BC58 Consistent with the approach taken in AASB 1004, in ED 260 the Board proposed asset recognition requirements for AASB 1058 that arguably 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 noted it was not their intent to override the recognition criteria for an asset in other Standards when proposing asset recognition criteria be included in this Standard.

BC59 Having regard to the above, the Board decided not to proceed with the asset recognition requirements it proposed in ED 260 (other than for volunteer services). Accordingly, this Standard does not specify asset recognition criteria or the guidance on control that had been proposed in ED 260. 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 and to direct that this Standard applies to assets recognised in accordance with other Australian Accounting Standards, where that asset had been acquired for consideration that is significantly less than fair value principally to enable the entity to further its objectives.

Measurement of assets

BC60 As noted in paragraph BC7, various Australian Accounting Standards presently require a not-for-profit entity to recognise assets received at fair value (or current replacement cost, in relation to inventories) where the asset had been acquired for no or nominal consideration. Part of the Board's reason for undertaking this project was to address the perceived gap in the accounting for transactions where an asset has been acquired for reduced consideration that is more than a nominal amount; the reduced consideration representing a donation (or other transfer) to the entity to further its objectives.

BC61 The Board considered that, generally, assets and liabilities of not-for-profit entities arising from transactions within the scope of a pronouncement resulting from this project should initially be measured in accordance with the measurement requirements of any other Standard applying to that class of assets or liabilities (for example, AASB 9, AASB 15 or AASB 116), because there is not a not-for-profit-entity-specific reason to depart from those measurement requirements. However, the Board considered that, if a vendor, in a transaction in which a not-for-profit entity acquires an asset, or a lessor, in a finance lease entered by a not-for-profit entity, makes a donation in the sale or lease contract, the not-for-profit entity should measure the cost of the asset at fair value with a corresponding amount recognised as income (assuming there are no related amounts to recognise on the transaction in accordance with paragraph 9 of the Standard). The Board noted that this view is consistent with the requirement in paragraph 66 of AASB 15 for an entity to measure any

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non-cash consideration at fair value to determine the transaction price in respect of a contract in which a customer promises consideration in a form other than cash.

BC62 The Board exposed this view as part of ED 260. The Board observed that this proposal was not limited to acquisitions of assets at no cost or for nominal consideration. Consequently, in ED 260 the Board proposed:

(a) extending the scope of the corresponding requirements in AASB 102, AASB 116, AASB 138, AASB 140 and AASB 141 that specify that the cost of an asset is measured at its fair value (or current replacement cost, in relation to inventories) as at the date of acquisition if the asset was acquired at no cost or for nominal consideration;

(b) some finance lease assets of lessees would consequently be initially measured at fair value, rather than at the lower of the fair value of the leased property and the present value of the minimum lease payments (see AASB 117). The Board observed its proposed modification of the leasing requirements in this regard would achieve consistency with the Standards referred to in paragraph BC62(a); and

(c) other assets recognised in accordance with Part B of ED 260 would also be required to be initially recognised at fair value.

BC63 The Board considered that the previous limitation on the use of fair value (or current replacement cost, in relation to inventories) to measure cost (ie when assets are acquired at no cost or for nominal consideration) was too narrow, for the following reasons:

(a) significant donations made by vendors are not recognised when the consideration paid by the entity is greater than nominal;

(b) as a consequence of (a), donations are treated inconsistently (for example, because a cash donation is recognised but a donation in the form of a discount on an asset purchase is not); and

(c) the different treatment of donated assets, according to whether consideration is greater than 'nominal', means that it is important to identify when consideration is 'nominal'; however, that term is undefined and its application may require subjective assessments.

BC64 Accordingly, the Board considered further modification of the asset measurement requirements set out in Australian Accounting Standards may be warranted. The Board proposed this modification in ED 260 as it considered the benefits of further modifying IFRS requirements in this regard to outweigh any additional costs to a not-for-profit entity, having regard to the scale of such transactions in the not-for-profit sector and noting that the modification would improve comparability by requiring consistent accounting for transactions of the same nature. In its redeliberations, the Board confirmed its view in this regard and decided to finalise its proposals largely as exposed, amended to reflect its revised articulation of the scope of this Standard. However, in response to feedback about the undue complexity of a resulting pronouncement and to facilitate understanding of the interaction between AASB 1058 and other Standards, the Board decided not to specify measurement requirements in respect of an asset (other than for volunteer services) in AASB 1058, but to reflect these within the specific other Australian Accounting Standards. Accordingly, this Standard makes consequential amendments to AASB 16, AASB 102, AASB 116, AASB 117, AASB 128, AASB 138, AASB 140 and AASB 141 to extend the requirement to measure assets at fair value (or current replacement cost, in relation to inventories) to include all assets acquired where the consideration for the asset is significantly less than fair value principally to enable the entity to further its objectives. The Board observed that income may arise on the initial recognition of a broader set of assets under the revised requirements set out in this Standard (including Appendix D) compared to the previous requirements.

BC65 The Board observed that under the revised requirements, a not-for-profit entity may be required to account for certain transactions made on significantly below-market terms and conditions differently to a for-profit entity. For example, a for-profit entity that negotiates a favourable price to acquire a property will initially measure that asset at the amount of consideration transferred. In contrast, a not-for-profit entity that negotiates a similar favourable price to acquire property will initially measure that asset at the asset's fair value for transactions where that price was provided to the entity in support of the not-for-profit entity's objectives, and the price is significantly different to the asset's fair value. The Board noted that this is not in keeping with a strict transaction neutrality policy. However, the Board considered its revised requirements appropriately reflect the substance of the transaction between a vendor and a not-for-profit entity and that the scale of such transactions in the not-for-profit sector is sufficiently greater than that in the for-profit sector to warrant the adoption of requirements for not-for-profit entities that differ from those for for-profit entities based on IFRS Standards.

BC66 In keeping with its decision not to specify measurement requirements in respect of an asset that is already the subject of an existing Australian Accounting Standard, the Board decided not to finalise proposed guidance on the measurement of taxation income (and other non-contractual receivables arising from statutory requirements) in AASB 1058, but as an amendment to AASB 9, made via AASB 2016-8.

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Inventory

BC67 In its redeliberations, the Board noted that it had proposed in ED 260 for inventories acquired in a transaction that includes a donation by the vendor to measure the cost of those inventories at their fair value. The Board observed that, before issue of this Standard, a not-for-profit entity is required to measure all inventory acquired at nil or nominal cost at current replacement cost (defined in paragraph Aus6.1 of AASB 102 *Inventories* as 'the cost the entity would incur to acquire the asset at the end of the reporting period'). The subsequent measurement requirements for inventories held for distribution refer to current replacement cost as one possible basis for identifying a loss in service potential.

BC68 The Board discussed a concern that it may be inappropriate to require all inventories acquired for consideration significantly less than fair value principally to enable the entity to further its objectives to be initially measured at fair value. The Board observed that a day-one loss might arise in instances where current replacement cost (subsequent measurement requirements) as defined in AASB 102 was determined to be less than the fair value on initial recognition of inventories held for distribution. Consequently, in finalising this Standard, the Board decided to instead require inventories acquired for consideration significantly less than fair value principally to enable the entity to further its objectives to be measured, on initial recognition, at their current replacement cost, rather than at fair value as proposed. The Board considered this avoids inadvertently potentially creating new inventory measurement issues. The Board decided to consider fair value measurement as part of a future project.

Bequests and endowments

BC69 In its redeliberations on ED 260, the Board observed differing treatments in practice as to when control of an item bequeathed to a not-for-profit entity is obtained, as some argue that control of a bequeathed item is obtained upon the death of the deceased person who made the Will, on the basis that the entity has a privileged position of being named as a beneficiary in that Will. The Board considered that until no other party holds a right to challenge the Will, the entity does not have an enforceable right to receive the bequeathed items, and that it is likely that a not-for-profit entity does not gain control of the asset until such time. Consistent with its decision to exclude asset recognition criteria from this Standard, the Board decided not to include guidance on when an entity may gain control of a bequest.

BC70 In commenting on the Exposure Draft, respondents also expressed concerns about the accounting for endowments made for the perpetual benefit of the entity. Respondents sought clarification of the accounting for such endowments, including:

(a) the form, if any, of the asset controlled; and

(b) whether the endowment is a contract with customer within the scope of AASB 15, or is recognised as income immediately on obtaining control.

BC71 The Board decided there was no need to develop any new principles in relation to endowments. Also, consistent with its decision to exclude asset recognition criteria from this Standard, the Board decided not to include guidance on when an entity may gain control of an endowment. However, having regard to the concerns raised by constituents, the Board decided to include illustrative examples to assist an entity in understanding whether a contract liability may need to be recognised on gaining control of an endowment.

Transactions including a contract with a customer

BC72 A customer may enter into a contract with a not-for-profit entity with a dual purpose of obtaining goods or services and to help the not-for-profit entity achieve its objectives. The Board considered that such a contract should be separated into component parts to faithfully represent the impact of the transaction on the entity's financial performance.

BC73 The Board initially explored using a measurement-driven 'residual' approach to identify donation components of contracts with customers. Under this approach,

(a) performance obligations of a not-for-profit entity arising from a particular contract would be measured at the stand-alone selling price for the unit of account for the usual sale of the promised goods or services; and

(b) the residual after deducting the measure of the performance obligations in (a) above from the total contract consideration (ie transaction price) would be recognised immediately as donation income.

BC74 The Board decided not to proceed with this approach having regard to:

(a) the risk of mistakenly identifying donation components in contracts with customers, because of measurement error; and

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(b) the time and cost of estimating the aggregate of the stand-alone selling prices of the promised goods or services separately from the transaction price would often exceed the benefits to users.

BC75 Consequently, in ED 260 the Board proposed that a not-for-profit entity be required to account for a separately identifiable donation component of a contract with a customer separately from the revenue that is recognised when the entity transfers a good or service to the customer, where that donation component is material. That is, the contract would be partly accounted for in accordance with this Standard (in respect of the donation component), and partly in accordance with AASB 15 (in respect of any performance obligations).

BC76 The Board proposed that the identification of whether a contract with a customer includes a donation component to be accounted for separately requires a qualitative assessment of whether:

(a) the customer intended to make a donation to the entity; and, if so,

(b) the donation is separately identifiable from the goods or services promised in the contract. A donation is separately identifiable from the goods or services promised in the contract if:

(i) there is evidence that part of the consideration paid or payable by the customer is not part of the consideration to which the entity expects to be entitled in exchange for the promised good or service;

(ii) the entity's entitlement to retain the donation is not conditional on that entity transferring a good or service to the customer (donor); and

(iii) the amount of the donation component can be measured reliably.

BC77 Some respondents to ED 260 considered that accounting separately for donation components does not provide information sufficiently useful to justify the cost. However, the majority of respondents to ED 260 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. Some of these respondents did not support the proposed qualitative assessment of whether a donation component is separately identifiable (based, in part, on whether the customer intended to make a donation). These constituents argued that it is unnecessary and unworkable to impose a 'customer intention' test for separately identifying a donation component.

BC78 In addition, the Board received feedback from its Project Advisory Panel that while understanding customer relationships was fundamental to the operation of AASB 15, the proposed approach to accounting for transactions involving both a contract with a customer and a donation component was not intuitive. The Board discussed feedback that the approach proposed in ED 260 overcomplicates the accounting, implies that the not-for-profit entity needs to 'stand in the shoes' of the transferor, and prioritises non-refundability as a distinguishing factor.

BC79 In its redeliberations, having regard to the feedback received, the Board confirmed its decision that the underlying principle that applies is for each component of a transaction to be accounted for separately, where material. However, acknowledging the constituent concerns described above, the Board decided not to require income to be recognised in accordance with this Standard in every such situation.

BC80 Instead, the Board decided to develop a rebuttable presumption (set out in Appendix F to AASB 15) that the transaction price in a contract with a customer is treated as wholly related to the transfer of promised goods or services. The Board decided that this presumption should be rebutted where the transaction price is partially refundable in the event the entity does not deliver the promised goods or services. That is, for transactions including a contract with a customer, only where these criteria are met may an entity have to possibly recognise an amount as income in accordance with paragraph 10 of this Standard. The Board considered whether the rebuttable presumption needed to also refer to separate identifiability of the element that is not related to the transfer of promised goods or services. The Board decided that this was not necessary, as this element – and any associated amount ascribed to it – represents the residual remaining after allocating the transaction price to the performance obligations in that contract. The Board's considerations in forming this decision are set out in its Basis for Conclusions to AASB 2016-8.

BC81 The rebuttable presumption is set out in Appendix F to AASB 15 (inserted via AASB 2016-8). However, the Board considered it important to highlight to users, as part of this Standard, that the requirements with respect to the accounting for contracts with customers where the transaction price includes an amount that would otherwise be separately recognised and accounted for as income immediately in accordance with this Standard is specified by AASB 15.

Leases with significantly below-market terms and conditions

BC82 In ED 260 the Board proposed a consequential amendment to AASB 117 *Leases* that would require entities to measure the lease asset and lease liability arising from a finance lease at the fair value of the leased asset. Constituents questioned the application of the requirements, observing in particular:

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(a) applying the amendment would result in equal measurement of the asset and the liability associated with the finance lease. A residual amount would never arise and therefore no income would be recognised in accordance with AASB 1058;

(b) the lease asset in a finance lease represents the right to use that asset for the lease term and therefore measuring it with respect to the leased property would not accurately reflect the economic benefits arising from the lease; and

(c) the lease liability would not reflect an entity's ongoing obligations in respect of the lease if measured with reference to the fair value of the leased property.

BC83 The Board agreed with constituent concerns, noting that it intended for the amendment to reflect the objective of AASB 1058. Consequently, the Board revised the amendment to require:

(a) the lease asset be measured with reference to the right to use the underlying asset in accordance with the terms and conditions of the lease;

(b) the lease liability be measured in accordance with the applicable Standard; and

(c) any residual amount be accounted for in accordance with AASB 1058.

BC84 The Board observed that AASB 16 *Leases* would require amendment in addition to AASB 117. In this respect the Board noted that AASB 16 measures the right-of-use asset with reference to the lease liability. The Board noted that where an entity enters into a lease with below-market terms and conditions it is unlikely that the lease liability would reflect an appropriate starting point to measure the right-of-use asset and accurately reflect the substance of the lease transaction. Consequently, the Board decided to specify that the right-of-use asset be initially measured at the fair value of the right to use the underlying asset in accordance with the terms and conditions of the lease. This Standard does not require that right-of-use asset to be subsequently measured at fair value – the subsequent measurement requirements that apply are specified by other Australian Accounting Standards.

BC85 The Board noted that leases with below-market terms and conditions were of particular interest for constituents and therefore decided to specifically identify them in the examples of related financial statement elements that could arise from a transaction within the scope of AASB 1058.

Transactions involving financial instruments

BC86 The Board observed a transfer of a financial instrument (or a net transfer of financial instruments) to a not-for-profit entity may include an element of assisting the not-for-profit entity to achieve its objectives, for example in the form of a below-market interest rate on the financial instrument. When developing the proposals for ED 260 the Board noted:

(a) paragraph 5.1.1 of AASB 9 requires a financial instrument to be initially measured at its fair value; and

(b) paragraphs B5.1.1–B5.1.2A of AASB 9 specify the accounting requirements in respect of any difference between the transaction price and the fair value of the instrument(s) transferred, including when any deferred difference is recognised as a gain or loss.

BC87 The Board discussed whether to require an element arising on transfer of a financial instrument (net transfer of financial instruments) on terms significantly below fair value primarily to enable a not-for-profit entity to achieve its objectives to be accounted for in accordance with AASB 1058, or in accordance with paragraphs B5.1.1–B5.1.2A of AASB 9. The Board weighed the benefits of treating the beneficial element similarly to other forms of transfers to the entity against that of treating a below-market loan differently to a negotiated loan (which may also be provided on better terms to 'market'). The Board noted that overall, paragraphs B5.1.1–B5.1.2A specify that the difference between the transaction price and the fair value of the instrument could qualify for recognition as part of another asset, or otherwise be accounted for in accordance with paragraph B5.1.2A.

BC88 The Board concluded to propose no amendment to AASB 9 in this regard and to finalise its proposals largely as exposed, on consideration of the costs involved in requiring an entity to separately account for these transactions compared to the benefits of more accurately reflecting the substance of part of the transaction. That is, when applying paragraph 9 of AASB 1058, an entity measures any financial instruments identified as a 'related amount' in accordance with AASB 9, and does not account for the difference between the transaction price and the fair value of the instrument in accordance with this Standard.

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Provisions

BC89 ED 260 specifically mentioned provisions as a related liability that could be recognised in relation to an inflow of a resource. When developing the proposals in ED 260, the Board noted that not-for-profit entities could enter into arrangements that satisfy the criteria to recognise a provision. However, ED 260 did not contain any further guidance on this point.

BC90 The Board observed that not-for-profit entities often provide specific reasons for their fundraising activities, and that at times the purpose for fundraising could be very specific but not legally binding. The Board discussed when a not-for-profit entity may have a constructive obligation, in the absence of a legal obligation, on acquiring an asset in a transaction where consideration is significantly below fair value principally to further the entity's objectives, such that a related provision is recognised on initial recognition of the asset.

BC91 In its discussion, the Board had regard to paragraph 20 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, which states:

"… Because an obligation always involves a commitment to another party, it follows that a management or board decisions does not give rise to a constructive obligation at the end of the reporting period unless the decisions has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities."

Hence, the Board considered that it would be unlikely, for example, for a not-for-profit entity's charter or stated objectives to be a sufficiently specific statement creating a valid expectation on the part of other parties such that a provision should be recognised in accordance with AASB 137.

BC92 The Board decided it would be useful to set out its views in this regard in Appendix B of the Standard and also as part of the Illustrative Examples accompanying AASB 1058.

Onerous contracts

BC93 Some not-for-profit entities enter into enforceable agreements where both a grantor and a service recipient both compensate the not-for-profit entity for the delivery of a specified good or service. The grantor may transfer an amount over to the not-for-profit entity in advance of the services being provided, but require a certain sum to be repaid where the service is not delivered.

BC94 The Board discussed a concern that a not-for-profit entity will be required to recognise an onerous contract for the costs of delivering future services when entering into such arrangements. The Board observed that each arrangement will need to be assessed based on its specific terms and conditions, and that judgement is involved in identifying whether an onerous contract which is part of the same economic event as the transfer from the grantor exists. The Board decided not to address the accounting for onerous contracts in AASB 1058 (or in AASB 15) as:

(a) the accounting for onerous contracts is specified by AASB 137 and is outside the scope of its current project; and

(b) agreements in which different parties pay collectively for a specified good or service are not limited to not-for-profit entities.

Transfers for the purpose of enabling an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity

BC95 Some respondents to ED 260 sought clarification on whether a transfer made for the purposes of enabling an entity to acquire or construct a recognisable non-financial asset for its own use would be recognised as income immediately, or whether a contract liability determined in accordance with AASB 15 arises. The Board noted that these concerns specifically related to whether a transfer of financial assets to enable an entity to acquire or construct a non-financial asset would result in a transfer of goods or services to the transferor or another party. If such a transfer does not result in the transfer of goods or services to the transferor or another party it will be outside the scope of AASB 15 and no contract liability is recognisable; and consequently, under the proposals, the transfer recognised as income on receipt.

BC96 The Board heard feedback from constituents from the university sector that universities presently recognise a cash grant received to build an educational facility at the time of receiving the grant (that is, on gaining control). Some constituents hold the view that this accounting treatment does not appropriately reflect the relationship of the grant and its related expenditure as the related expenditure is recognised over a number of reporting periods as the educational facility is built.

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BC97 The Board discussed whether such transfers were within the scope of AASB 15, as had been suggested by ED 260. The Board considered that in the absence of guidance, diverse practice may arise in this regard, for example, some may consider that:

(a) the construction or acquisition of a recognisable non-financial asset on behalf of the grantor is an activity representing services being transferred to the grantor, similar to research activities undertaken on behalf of the grantor but benefiting the community at large. Under this view, an entity would conclude there had been a transfer of goods or services to the transferor or another party;

(b) the construction or acquisition of the recognisable non-financial asset is not an activity representing services being transferred to the grantor as the asset remains with the not-for-profit entity. Under this view, an entity would conclude that the transfer is not a contract with a customer within the scope of AASB 15; and

(c) AASB 15 applies, but does not require any originally transferred cash and an associated contract liability to be recognised. Instead, the underlying recognisable non-financial asset and income is recognised as the asset is constructed, akin to treating the transaction as an in-substance transfer of the underlying asset as consideration for the construction or acquisition service.

BC98 For avoidance of doubt, the Board decided to identify the accounting that applies to such transfers. In its redeliberations, the Board observed that in such arrangements, in substance, the transferor had intended to transfer a recognisable non-financial asset to the not-for-profit entity. The Board considered that an in-substance transfer of a good for use by the entity itself should not result in income until the recipient has satisfied its obligation to construct or acquire the asset. That is, the timing of income recognition should reflect the entity receiving the asset directly, rather than the cash to construct or acquire the asset. Accordingly, the Board decided that the accounting for such transactions should reflect that of the approach in AASB 15. However, given the diverse views as to whether AASB 15 applies, the Board decided to specify instead requirements in AASB 1058 to mirror, to the extent appropriate, the accounting that would be achieved had the transaction been accounted for had it been incontestably a contract with a customer within the scope of AASB 15.

BC99 The Board sought feedback on its proposals in this regard as part of the public 'fatal flaw' review of the draft Standard. Respondents to the draft Standard were generally supportive of the proposal to include specific requirements for such arrangements.

BC100 The Board discussed the following concerns about the proposal:

(a) what is meant by 'own use';

(b) whether the specified accounting could apply also in instances where the non-financial asset acquired is a resource controlled that meets the definition of an asset but that is not permitted to be recognised by an Accounting Standard; and

(c) whether the specified accounting should be extended to apply also in instances where a non-financial asset (for example, construction materials) are made available to the entity, instead of cash or another financial asset.

BC101 The Board discussed feedback seeking clarification whether the specified accounting could apply to instances where an asset is constructed as directed but used by others as part of furthering the not-for-profit entity's objectives. For example, a not-for-profit entity whose mission is to provide housing services may receive a grant to construct public housing, however, the not-for-profit entity would not itself occupy the building when constructed. The Board observed its intention was for the scope of the accounting specified to include such transfers. In finalising AASB 1058, the Board decided to refer instead to "a recognisable non-financial asset to be controlled by the entity" and to add guidance to clarify the types of arrangements that could be within scope.

BC102 The Board also discussed whether the specified accounting could apply also in instances where the non-financial asset acquired is a resource controlled that meets the definition of an asset but that is not permitted to be recognised by an Accounting Standard. For example, a not-for-profit entity may be provided a grant to conduct research services with any detailed research data collected and rights to any commercial use of the data retained by the not-for-profit entity. AASB 138 *Intangible Assets* does not permit research activity to be recognised as an asset.

BC103 The Board considered whether to:

(a) limit the application of paragraphs 15–17 of the Standard to only grants (and other transfers) to develop a non-financial asset that qualifies for recognition under another Australian Accounting Standard; or

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(b) clearly articulate that the application of paragraphs 15–17 of the Standard includes grants (and other transfers) to develop a non-financial asset for which recognition is prohibited by another Australian Accounting Standard.

BC104 The Board discussed the scope of these paragraphs having regard to grants received to conduct specified research activity; the related intellectual property of which may or may not be controlled by the not-for-profit entity recipient. The Board observed that extending the application of paragraphs 15-17 of the Standard to include grants (and other transfers) to develop a non-financial asset for which recognition is prohibited by another Australian Accounting Standard would be consistent with the underlying principle being that the grantor intended to transfer a good (rather than a financial asset) to the not-for-profit recipient. However, the Board was concerned that extending the paragraphs in this manner would:

(a) create ambiguity in the distinction between a service and a good, and lack of clarity as to whether an implicit good component in a contract needs to be separately identified from the service. The Board observed that many service contracts in both the not-for-profit and for-profit sector arguably give rise to (unrecognised) knowledge or expertise to the service renderer;

(b) result in a lack of comparability, as some constituents may contend that all the value in such a contract is attributable to the unrecognised good acquired; while others contend that the value remains with the service rendered (ie the good is an incidental product that the customer does not value in entering the contract). Yet others may contend that some apportionment is appropriate;

(c) be seen as being inconsistent with the Board's decision not to extend the accounting specified by AASB 15 to all transactions of not-for-profit entities, regardless of whether a contract with a customer exists. The Board could not see a clear distinction why the accounting should differ between transactions that through the conduct of an activity result in incidentally gaining control of intellectual property assets, and an arrangement to deliver services for which income may be recognised immediately in accordance with this Standard; and

(d) create confusion as to whether this Standard would allow certain intangible assets to be recognised, where their recognition is otherwise prohibited.

Consequently, the Board decided that the accounting set out in paragraphs 15–17 of the Standard should be limited to transactions that will result in a recognisable non-financial asset controlled by the entity.

BC105 The Board observed that universities (and other not-for-profit recipients of grants to perform research) would need to determine whether the accounting for a grant to perform research is specified by AASB 15 or AASB 1058. The Board considered its decision to limit the scope of paragraphs 15–17 of the Standard will not result in significant additional costs to affected entities, as the entity would already be required to assess a funding arrangement within the scope of AASB 15 for whether revenue is recognised over time, or at a point in time.

BC106 However, given the significance of grants to conduct research to universities and other not-for-profit recipients, the Board decided to develop several implementation examples to AASB 15 to set out the accounting in this regard. The examples illustrate scenarios where income would be recognised immediately on gaining control of the financial asset in accordance with this Standard, or recognised over time, or at the end of the agreement, in accordance with AASB 15. The Board's considerations in this regard are set out in its Basis for Conclusions to AASB 2016-8.

Volunteer services

BC107 AASB 1004 (December 2007) required local governments, government departments, General Government Sectors (GGSs) and whole of government reporting entities to recognise services received free of charge or for nominal consideration, provided the fair value of those services could be measured reliably, and the services would have been purchased if they had not been donated. The Board decided to carry forward these aspects into AASB 1058 as it was concerned that a wide-ranging review of the recognition requirements for volunteer services could take significant time and potentially delay the completion of this project.

BC108 AASB 1004 does not specifically indicate the circumstances in which not-for-profit entities other than those specifically identified can recognise volunteer services. Consequently, not-for-profit entities may elect to recognise volunteer services based on an accounting policy developed in accordance with AASB 108. ED 260 proposed clarifying that not-for-profit entities may elect to recognise volunteer services if the fair value of those services can be measured reliably, without necessarily needing to have been purchased had the services not been donated. In forming the proposal, the Board observed the purchase pre-requisite in AASB 1004 was primarily focused on limiting the scope of volunteer services for which recognition by particular public sector not-for-profit entities is required. The Board considered not-for-profit entities should be able to elect to recognise volunteer services with a fair value that can be measured reliably even if those services would not have been purchased if they had not been donated.

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BC109 The Board noted that carrying forward the treatment of volunteer services from AASB 1004 almost unchanged retains an inconsistency between private sector and public sector not-for-profit entities regarding the scope of the recognition requirements for volunteer services. The Board acknowledged the inconsistency reflects the transfer of recognition requirements for volunteer services to AASB 1004 upon the withdrawal of Australian Accounting Standards for specific types of public sector entity (namely, AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*) in 2007, rather than a difference in information needs of users of financial statements of not-for-profit entities in the private and public sectors.

BC110 Many respondents to ED 260 were of the view that the requirements with respect to the recognition of volunteer services should be the same for all not-for-profit entities. However, many opined that the recognition of volunteer services should be optional, primarily for cost–benefit reasons. Some encouraged the Board to expedite consideration of whether there was differentiation between entities in the sector to justify different accounting requirements. Others suggested that the treatment and location of information about volunteer services be reconsidered by the Board.

BC111 The Board considered how to progress its consideration of the accounting for volunteer services, having regard to the feedback received. The Board noted further consideration and due process would be required before it could finalise any broad changes to the current accounting requirements in this regard. Accordingly, the Board decided, as a short-term solution, to finalise the recognition and measurement proposals largely unamended from those exposed. (See also paragraphs BC123–BC124 below.)

BC112 The Board expects to consider the accounting requirements for volunteer services as part of a separate future project.

Receipts of inventory

BC113 ED 260 proposed that an assessment of whether a transfer of inventory for no consideration is material for recognition should be made at a transaction level, and need not be reassessed at another unit of account, such as at a portfolio of similar transactions. The Board considered such a treatment would be likely to achieve a better balance of costs and benefits having regard to the extent of transfers of goods for no consideration to charities.

BC114 The Board sought specific feedback from constituents as to its proposed approach to the recognition and measurement of inventories donated other than as part of a contract with a customer. Most expressed support for the proposal to assess materiality of a donation of inventory at the transaction level rather than at a portfolio level.

BC115 In its redeliberations, the Board observed that it had presented its discussion on materiality in ED 260 both within the general principles for recognition and within specific requirements pertaining to donated inventory. The Board confirmed it had not intended to propose that materiality should only be assessed at a transaction level for all transactions (for example, volunteer services or small grants of non-financial assets), as evidenced by its specific question pertaining to inventory and requirements of volunteer services.

BC116 The Board considered whether further due process is necessary if the final pronouncement limited the proposal that materiality need only be assessed at the transaction level, rather than also at a portfolio level, only to donations of inventory, rather than all inflows of assets. The Board decided that no further due process is necessary, as not finalising its proposals in that regard would, in the main, maintain the current status quo. In addition, the Board decided to express the relief in this regard as a practical expedient, rather than a requirement.

BC117 AASB 101 defines materiality as "omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements". The Board observed that materiality is commonly understood as applying to the whole financial statements as well as at an individual transaction level. The Board concluded it was not providing guidance on interpreting materiality, but providing relief from the normal manner in which materiality would otherwise apply to the entity in respect of inventories. That is, in the absence of the practical expedient, an entity would be required to recognise receipts of inventories for which the consideration paid was significantly less than fair value (including transfers for no or nominal consideration) where the inventory overall could materially affect the entity's financial position and financial performance.

Grant income

BC118 The Board noted that constituents in local government were particularly concerned about the implications of the revised recognition requirements to certain periodic grant funding received by these entities. The Board considered the application of the underlying principles in this Standard to such grants, and decided there was no conceptual basis for supporting an exception to the general requirements in the Standard.

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Rates received in advance of the rating period

BC119 The Board observed that under the former income recognition requirements, rates received by local governments were generally recognised as income on receipt by the local government. The Board heard that some constituents considered income to be prematurely recognised where amounts were received in advance of the rating period, as the local government is obliged to refund the amount prepaid until the start of the rating period. The Board expects that it may be possible for the timing of income recognition to be later under this Standard compared to the previous requirements. In acknowledgement of the significance of rates to a local government's financial performance, the Board decided to confirm its decision in ED 260 for the final Standard to include an example on rates received in advance, to explain the accounting that applies under this Standard (and its interaction with other Australian Accounting Standards).

Disclosure

BC120 The Board decided that, consistent with other recent Australian Accounting Standards, AASB 1058 should specify a disclosure objective. The Board observed that specifying an overall disclosure objective avoids the need for detailed and prescriptive disclosure requirements to accommodate the varied types of transactions within the scope of AASB 1058.

BC121 The Board decided to include disclosure requirements to help an entity meet the disclosure objective. The Board observed that those disclosures should not be viewed as a checklist of minimum disclosures, because some disclosures may be relevant for some entities but may be irrelevant for others. The Board also observed that it is important for an entity to consider the adequacy of its disclosures having regard to the disclosure objective, and materiality.

BC122 In its redeliberations, the Board considered the adequacy of the disclosures proposed in ED 260, having regard to its other decisions on the project (for example, to require a liability to be recognised in respect of certain transfers to enable an entity to construct a non-financial asset for its own use), and in response to constituent feedback on the proposed disclosures. The Board decided to finalise some disclosures in a form different to that proposed, and include certain specified additional disclosures, as well as encouraging other disclosures.

Volunteer services and donated inventory

BC123 In its redeliberations on ED 260, the Board observed that the operations of many not-for-profit entities rely heavily upon volunteer services and/or donated inventories. The Board considered that users of a not-for-profit entity's financial statements would find it useful to understand the contribution made by such donations to the achievement of the entity's objectives during the reporting period and the entity's dependency on donated inventories and volunteer services for the future achievement of its objectives.

BC124 The Board observed that it had not proposed a disclosure of this nature as part of ED 260 nor received much feedback seeking such disclosure. In addition, the Board considered whether requiring disclosure of an entity's dependency on volunteer services as part of this project may be seen as pre-empting the outcomes of the Board's project on Reporting Service Performance Information and a possible future project relating to volunteer services (see paragraph BC112 above). Accordingly, the Board decided to encourage entities to disclose qualitative information about the entity's dependence on volunteer services (recognised and unrecognised) and donated inventory held but not recognised as assets.

Transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity

BC125 Consistent with the Board's decision to include requirements in AASB 1058 that substantially mirror those in AASB 15 for transfers to enable an entity to acquire or construct a non-financial asset to be controlled by the entity, the Board decided to replicate various AASB 15 disclosure requirements in AASB 1058. The Board noted that these disclosures provide useful information to users of a not-for-profit entity's financial statements and that similar disclosures would have been required had the agreement been determined to be within the scope of AASB 15.

Restrictions on the use of an asset

BC126 In its redeliberations, the Board discussed feedback querying whether AASB 1058 should require the disclosure of restrictions on the use and purpose of amounts recognised as income, including restrictions on an entity's ability to liquidate a related asset or to use it as security. These constituents considered that the

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disclosure of restrictions is necessary to enable users of financial statements to understand the effects of inflows of resources on the financial position, financial performance and cash flows of the entity. The Board agreed that it would be useful to a user of the financial statements of a not-for-profit entity, for example, to understand the nature and extent of externally imposed restrictions on resources controlled. The Board noted these disclosures will go some way to addressing respondent concerns that the proposals in ED 260 do not permit the deferral of income to match expenses in all scenarios where a not-for-profit entity considers funds to have been fully committed to a specific purpose.

BC127 The Board observed that international standard-setters have specified varying disclosures in this regard. The Board considered whether it would be appropriate to specify a particular disclosure in this Standard (for example, disclosure of components of equity divided into restricted and unrestricted amounts), but decided that the form of the disclosure should be determined by the not-for-profit entity. This allows an entity to adopt an approach that best aligns with the manner in which it manages and presents its financial statements. For the same reason, the Board decided not to define "externally imposed restrictions".

BC128 To assist users of the Standard, the Board decided to include examples of various forms the disclosure could take. The Board acknowledged a concern some preparers have with the proposed Standard is that they consider the primary financial statements will continue to misrepresent to users the resources available to the entity (as the timing of income recognition may be in advance of the expenses the income received is meant to compensate). In response to this feedback, the Board decided to specify in particular, that a not-for-profit entity may separately identify on the face of the statement of profit or loss and other comprehensive income, the amount of total comprehensive income that is:

(a) subject to externally imposed restrictions; and

(b) is not subject to any externally imposed restrictions (the 'unrestricted' amount).

Disclosing information about its externally imposed restrictions in this form allows entities to distinguish between 'committed' and 'uncommitted' amounts recognised immediately as income in instances where there is no obligation on the not-for-entity recipient to return assets received in the event the social expectation is not met. The Board expects this disclosure to alleviate, through communication, the concern that users of a not-for-profit entity's financial statements do not appreciate the "true" financial position and financial performance of the entity, while maintaining the Board's policy on transaction neutrality. Further, the Board noted by identifying in the Standard that the disclosure may be made on the face of the financial statements (for example, as a subtotal) will avoid ambiguity of whether this is a permissible manner of satisfying the encouraged disclosure.

BC129 The Board discussed whether disclosure about externally imposed restrictions should be required, or merely encouraged. The Board noted that it had not exposed a proposal in this regard, and accordingly, decided to encourage the disclosure of information in this regard as opposed to requiring entities to make that disclosure.

BC130 In addition, the Board observed that:

(a) AASB 107 *Statement of Cash Flows* requires disclosure of the amount of significant cash and cash equivalent balances held by an entity that are not available for use by its group, together with commentary about these balances;

(b) AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* require disclosure of the existence and carrying amounts of assets whose title is restricted; and

(c) AASB 7 *Financial Instruments: Disclosures* requires disclosure of information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance, and the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

The Board noted there may be some overlap between the disclosures set out in paragraph 37 of this Standard, and these other Australian Accounting Standards.

Disclosure of parliamentary appropriations and other related authorities for expenditure

BC131 When developing AASB 1004 (December 2007), the Board decided to defer consideration of whether disclosures of parliamentary appropriations should apply to not-for-profit public sector entities other than government departments, given the short-term nature of its project at that time. The Board noted that in due course, it would consider extending the application of the requirements.

BC132 As part of this project, the Board reviewed the specified disclosures of compliance with parliamentary appropriations and other externally-imposed requirements required of government departments which had been included in AASB 1004 (now deleted from that Standard). The Board decided, in light of changes in

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public sector financial management arrangements since originally developing these requirements, to propose extending the scope of disclosures in this regard to include other public sector entities that obtain part or all of their spending authority from parliamentary appropriations.

BC133 In reviewing the disclosures, the Board acknowledged constituent concerns that the interaction between two of the specified disclosures was unclear, as the scope of paragraph 64(e) of AASB 1004 was broader than the scope of paragraph 64(d). The Board decided to clarify its requirements in this regard by proposing in ED 260:

(a) not to carry forward the text of paragraph 64(e) into AASB 1058; and

(b) to require disclosure of the financial consequences of an unauthorised expenditure.

BC134 Respondents to the ED were generally supportive of the Board's proposals in this regard. In its redeliberations, the Board noted a concern raised that by extending the application of these disclosure requirements beyond government departments some might interpret the disclosure requirements as applying to for-profit entities in the public sector. The Board observed that the scope of AASB 1058 is limited to not-for-profit entities and therefore for-profit public sector entities would not be subject to these disclosures.

BC135 The Board discussed a concern whether the proposed disclosure requirements duplicate existing disclosures in AASB 1055 *Budgetary Reporting*. The Board reaffirmed its view that these disclosures contain fundamentally different requirements from AASB 1055 and should be retained, as the disclosures are focused on information concerning how appropriations and other advances received have been expended, rather than the more broadly based requirements in AASB 1055 for actual to budget variance analysis (see paragraph BC28 in AASB 1055).

BC136 In addition, as part of its deliberations, the Board discussed whether to relocate disclosures about a government department's compliance with parliamentary appropriations and other externally-imposed requirements from AASB 1004 to AASB 1054 *Australian Additional Disclosures*, rather than this Standard. The Board concluded it would be more user-friendly to include these disclosure requirements in AASB 1058 given the nexus between the income of government departments and appropriated amounts.

BC137 Having regard to the feedback received, the Board decided to finalise the disclosure in this regard largely as exposed in ED 260.

Reduced disclosure requirements (Tier 2)

BC138 The Board decided, in light of its current project to review the principles underlying Tier 2 reporting requirements, not to specify any reduction in applicable disclosures in making AASB 1058. Through a separate due process, the AASB will consider whether relief from certain specified disclosure requirements should be provided to entities that adopt Tier 2 Reduced Disclosure Requirements.

Transition

BC139 The Board considered whether it should provide transitional relief to entities on adopting AASB 1058 and decided that, consistent with the IASB's decisions on IFRS 15, some form of transition relief would be appropriate.

BC140 In developing ED 260, the Board observed there did not appear to be any not-for-profit specific reason for AASB 1058 to depart from the general features of the transitional provisions in AASB 15 as arrangements giving rise to income are not specific to not-for-profit entities. Accordingly, the Board proposed transitional relief on initial application of AASB 1058 be limited to permitting entities the option of recognising the cumulative effect of initially applying AASB 1058 in opening retained earnings (or another component of equity, as appropriate) at the date of initial application of AASB 1058, to be consistent with AASB 15.

BC141 Many respondents were not supportive of the Board's limited proposals in this regard. In its redeliberations, the Board noted concerns about the absence of any specific transitional provisions:

(a) for existing research, donation and grant funded projects;

(b) for assets acquired for no cost or a nominal consideration (including "peppercorn" leases where a nominal amount is made as payment to the lessor); and

(c) in acknowledgement of the short lead time between issue and implementation of AASB 1058.

BC142 Having regard to the feedback received, the Board decided to confirm its proposal to allow entities an option between fully retrospectively applying the Standard, or recognising the cumulative effect of initially applying the Standard at the date of initial application (that is, not to restate comparative information). The Board decided entities should be encouraged, but not required, to restate comparative information on adoption of AASB 1058. In addition, the Board redeliberated whether further transitional relief was necessary.

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BC143 The Board observed that not-for-profit entities commonly receive assets through donations, taxes and other similar transfers. The Board acknowledged constituent concerns about the transition requirements for inflows of resources previously accounted for in AASB 1004 but now within the scope of this Standard or AASB 15. The Board noted that in the absence of any transitional provisions in AASB 1058 or amendment to AASB 15, not-for-profit entities would be required to retrospectively apply the requirements of AASB 1058 or AASB 15 (where the transaction is within the scope) to contracts for which the associated inflow of resources had already been fully recognised in accordance with AASB 1004.

BC144 The Board was concerned that this imposed a greater implementation burden on not-for-profit entities compared to for-profit entities. Consequently, the Board decided to extend the transitional relief in AASB 1058 to permit relief from retrospective application for contracts for which the entity has recognised all of the income in accordance with AASB 1004, to be consistent with the relief available in IFRS 15 for completed contracts. The Board also additionally amended the definition of a completed contract in AASB 15 to include contracts for which the entity has recognised all of the revenue in accordance with AASB 1004, or revenue in combination with a provision in accordance with AASB 137. The extent of the relief is dependent on the entity's elections on retrospective application.

BC145 In ED 260, the Board proposed requiring an asset that has been acquired for consideration that is below market but that is more than nominal to be measured at fair value. The Board decided to finalise the proposal in issuing this Standard (other than with respect to inventory). However, the Board observed that an entity would not have previously applied AASB 1004 to these transactions, nor recognised any income on the transaction as the asset acquired will generally have been measured at the amount of the consideration transferred. Accordingly, in the absence of any transitional provisions, a not-for-profit entity will be required to apply the requirements of AASB 1058 retrospectively to such transactions, including determining the fair value (or, in respect of inventory, current replacement cost) of the asset on acquisition.

BC146 In its redeliberations, the Board considered that the costs of applying AASB 1058 retrospectively to all such assets would exceed the benefits of doing so, having regard to the need for an entity to identify and value such assets still existing at reporting date. Accordingly, the Board determined some form of transitional relief to be appropriate. The Board decided to consider transitional provisions for leases made on significantly below-market terms and conditions separately from any transitional provisions for other assets. The Board's considerations with respect to transitional provisions for leases made on significantly below-market terms and conditions is set out in paragraphs BC150–BC153 below.

BC147 With respect to assets other than lease assets, the Board decided not to require a not-for-profit entity to revisit the accounting that previously applied on initial recognition of these assets. The Board made this decision having regard to costs involved in identifying and measuring the various assets held on adoption of this Standard that may have been acquired at an amount that was more than nil or nominal, but significantly less than fair value, and the associated discount to fair value. The Board considered these costs to outweigh the benefits of retrospective application of the Standard, as these assets are already recognised (generally at cost on initial recognition) in the statement of financial position, and noting that there is unlikely to be any deferred income to recognise in future periods in accordance with this Standard.

BC148 The Board observed that, consequently, the statement of financial position will reflect a mixed measurement position for assets acquired for consideration that is significantly less than fair value but more than nominal. Those acquired for more than a nominal amount prior to the application of AASB 1058 would continue to be reflected at cost on initial recognition. Assets acquired under similar circumstances after adoption of AASB 1058 will generally be initially measured at fair value (or current replacement cost, in relation to inventories).

BC149 The Board decided that the transitional relief for other assets need not be aligned with transitional relief for leases. In making this decision, the Board considered:

(a) the quantum of transactions involving a lease. The Board observed it expects an entity to have undertaken fewer transactions involving leases, and that the terms and conditions of these transactions to be clearly identifiable, compared to acquisitions of other assets at a discount to fair value; and

(b) that a lessee may not necessarily have recognised an amount in its statement of financial position in respect of the right-to-use asset in an operating lease.

Leases with significantly below-market terms and conditions

BC150 The Board decided to consider transitional relief for leases on significantly below-market terms and conditions separately from transitional relief for other assets. The Board made this decision having regard to:

(a) the diversity in accounting for such leases under previous requirements (see paragraph BC6 above);

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(b) the potential significance of leases made on such terms to the financial position of a not-for-profit entity; and

(c) the prevalence of below-market leases in the not-for-profit sector.

BC151 The Board considered whether to:

(a) require retrospective application of this Standard, without any relief on initial application;

(b) permit a not-for-profit lessee to continue its existing accounting for such leases, in a similar manner to the relief specified for other transactions; or

(c) permit a not-for-profit lessee access to a similar level of relief on initial application of this Standard as is available to a for-profit entity on adoption of AASB 16.

BC152 The Board decided that it should, at a minimum, permit a not-for-profit lessee access to a similar level of relief on initial application of this Standard as is available to a for-profit entity on adoption of AASB 16. However, having regard to its decisions on the measurement of assets acquired in a lease (see paragraph BC84 above), the Board concluded it would be appropriate to modify the transitional provisions set out in AASB 16 to require the lease asset, on initial adoption of this Standard, to be measured at its fair value rather than by reference to the lease liability.

BC153 In its discussion, the Board decided not to permit a not-for-profit lessee to continue its existing accounting for such leases, in a similar manner to the relief specified for other transactions. The Board made this decision having regard to its concern the financial position of a not-for-profit entity may be misrepresented, and the lack of comparability between entities if such leases were entered into before and after adoption of this Standard.

Early adoption of AASB 1058 before AASB 16

BC154 The Board did not want to unintentionally require a lessee to fair value a right-of-use asset twice, once on transition to AASB 1058, if early adopted, and again on transition to AASB 16. Having regard to this and the feedback received about the adequacy of the transitional provisions in ED 260, the Board decided to add early adoption transition requirements to AASB 1058.

BC155 The scope of AASB 1058 extends to leases provided to a not-for-profit entity on significantly below-market terms and conditions at inception principally to enable an entity to further its objectives. Not-for-profit entities can apply AASB 1058 early before the mandatory application date of AASB 16, thereby applying AASB 1058 alongside AASB 117. Under AASB 117, leases classified as operating leases do not give rise to a recognised asset of the lessee. The Board considered whether a not-for-profit lessee should be required to recognise right-of-use assets arising from operating leases at fair value when applying AASB 1058 before adopting AASB 16, noting this approach would be consistent with the objective of this Standard. However, the Board was conscious that it were to do so, it would place an additional burden on not-for-profit lessees, and would not be in keeping with its policy on transaction neutrality. Consequently, and having regard to the short lead time before AASB 16 becomes effective, the Board decided to require entities to continue applying the requirements of AASB 117 in respect of operating leases until transition to AASB 16.

BC156 With respect to finance leases within the scope of AASB 117, the Board noted that a lessee may not have previously measured a finance lease asset, in a lease made on significantly below-market terms and conditions at inception principally to enable an entity to further its objectives, at fair value on initial recognition. The Board considered the costs to a lessee of having to fully retrospectively apply AASB 1058 to such leases were likely to outweigh the benefits to users of doing so. Consequently, the Board decided to require a lessee to measure the fair value of a finance leased asset at the date of initial application of AASB 1058 (if paragraph C3(b) applies) or at the beginning of the earliest period presented (if paragraph C3(a) applies). The Board decided it was not necessary to require the entity to remeasure the leased asset to fair value again on adoption of AASB 16.

First-time adoption of Australian Accounting Standards

BC157 The Board considered whether any amendment is necessary to AASB 1 *First-time Adoption of Australian Accounting Standards* to assist not-for-profit entities on first-time adoption of Australian Accounting Standards. In making its decision, the Board had regard to the extent of amendment to AASB 1 as a consequence of the issue of AASB 15 and AASB 16.

BC158 The Board noted that a not-for-profit entity applying AASB 1 would be able to access the relief specified in AASB 15 in respect of contracts for which the entity has previously fully recognised income in accordance with AASB 1004 (refer paragraphs D34-D35 of AASB 1). Consequently, the Board decided no further amendment was required in this regard.

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BC159 The Board observed that AASB 1 specifies the accounting on first-time adoption of Australian Accounting Standards for lease assets and lease liabilities, including practical expedients that may be adopted. The Board noted, in the absence of developing Australian specific amendments to AASB 1, it is unclear how a lease within the scope of AASB 1058 should be treated in the financial statements of a first-time adopter of Australian Accounting Standards.

BC160 The Board considered whether the general features of the exemptions available for lease assets and lease liabilities in AASB 1 should apply also to leases with significantly below-market terms and conditions at inception. The Board noted if it did so, assets acquired through such leases could remain understated in a first-time adopter's financial statements. The Board considered this reduced comparability between a not-for-profit first-time adopter and a not-for-profit entity that is already applying Australian Accounting Standards. Accordingly, the Board decided not to extend this exemption to leases for which the initial recognition and measurement is specified by AASB 1058. However, the Board considered that some measure of transitional relief is necessary, and decided a first-time adopter should have access to similar relief in this regard as an entity already applying Australian Accounting Standards.

Effective date

BC161 The Board considered feedback it received from several constituents requesting the Board defer the effective date of AASB 1058 (and related pronouncements) beyond 1 January 2018. The Board discussed the effective date of AASB 1058 (and AASB 2016-8, also issued as part of this project), noting its intention had been to align the effective date of any pronouncements resulting from this project with the effective date of AASB 15. The Board was concerned that an effective date of 1 January 2018 could disadvantage not-for-profit entities compared to for-profit entities applying AASB 15, as not-for-profit entities would have significantly less lead time before implementation of AASB 1058. The Board considered that the transitional provisions may not provide sufficient relief to entities in this regard.

BC162 In addition, the Board considered whether to similarly defer the application date of AASB 15 for not-for-profit entities. The Board discussed the interaction between AASB 15, AASB 1004 and AASB 1058 should the application date of AASB 15 differ from that of AASB 1058, including:

(a) whether the scope of AASB 1004 should take precedence over AASB 15 for affected entities. (that is, transaction types subject to AASB 1004 would continue to be subject to that Standard, until such time as AASB 1058 became effective); and

(b) the effect on comparability for transactions that may be accounted for in accordance with AASB 1004 by not-for-profit entities but in accordance with AASB 15 by for-profit entities.

BC163 The Board considered that it would be preferable for the effective date of AASB 1058, AASB 2016-8 and AASB 15 to be aligned for application by not-for-profit entities, rather than adopt a stepped approach to adopting the revised income recognition requirements. Having regard to the timing of finalisation of this project, the Board decided, for not-for-profit entities, to defer the application date of AASB 1058, AASB 2016-8 and AASB 15 to 1 January 2019. The amendment to defer the application date of AASB 15 to 1 January 2019 for not-for-profit entities is made by AASB 2016-7.

BC164 The Board decided to permit entities to early adopt AASB 1058, provided AASB 15 and AASB 2016-8 are applied at the same time. The ability to early adopt means that a not-for-profit entity wishing to adopt the revised requirements at the same time as a for-profit entity is not prevented from doing so.

Other

Forthcoming amendments to the Australian Conceptual Framework

BC165 The Board observed that an active project on its work program is the development of a revised Australian Conceptual Framework. The Board expects that there will be amendments to the definitions of various elements of the financial statements resulting from that project, at least for for-profit entities.

BC166 The Board considered whether AASB 1058 should be developed having regard to the proposals exposed in ED 264 *Conceptual Framework for Financial Reporting* (incorporating IASB ED/2015/3 of the same name) and any subsequent decisions of the IASB to date on its project. The Board concluded it would be inappropriate to base its decisions in AASB 1058 on expected forthcoming amendments, noting that it had not yet deliberated the extent of any amendment that may be necessary to the IASB Conceptual Framework for application by Australian not-for-profit entities.

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BC167 The Board noted it may, at a future time, consider undertaking a project to review the requirements of AASB 1058 against a revised Australian Conceptual Framework.

Contributions by owners

BC168 In developing ED 260, the Board noted the concerns of some constituents with the existing definition of "contributions by owners" (see Appendix A of AASB 1058) and Interpretation 1038 that includes for-profit public sector entities within its scope. The Board observed:

(a) the IASB has not defined a similar term employed within the definition of 'income' in IFRS Standards; and

(b) the IPSASB's Public Sector Conceptual Framework includes a broader definition of 'ownership contributions' than that in Australian Accounting Standards.

BC169 Acknowledging constituent concerns about application of the term, the Board decided to invite comment on the defined term "contributions by owners" as part of this project. The Board did not make a specific proposal regarding the definition of "contributions by owners". Instead, ED 260 illustrated what a replacement Standard for AASB 1004 would look like without that definition and particular related guidance, and posed related questions including whether a definition of 'contributions by owners' is still necessary, or appropriate.

BC170 In responding to the ED, constituents noted the definition in AASB 1004 can be problematic, identified a need for a definition of contributions by owners and expressed their support for applying the IPSASB definition or using the IPSASB definition as the basis for an Australian definition. Many respondents considered a definition was necessary to minimise diversity in practice.

BC171 In addition, the majority of respondents to ED 260 responding on this topic supported the withdrawal of Interpretation 1038.

BC172 Having regard to the feedback received, the Board considered whether to:

(a) withdraw and not replace the current definition in AASB 1004 and Interpretation 1038;

(b) replace the current definition in AASB 1004 with the definition of ownership contributions adopted by the IPSASB, and separately consider whether to retain an amended Interpretation 1038; or

(c) address the accounting for contributions by owners as part of a separate project.

BC173 The Board was conscious of the need to finalise its proposals on other aspects of its current project in a timely manner. The Board considered that developing any amendment to the definition, including ensuring adequate due process, would delay finalisation of its current project. Accordingly, the Board decided to progress consideration of 'contributions by owners' and the related requirements as part of a separate project. Consequently, the Board decided to retain, for the interim:

(a) the terms 'contributions' and 'contributions by owners' as presently defined in Australian Accounting Standards;

(b) the requirements specified in AASB 1004 and AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* with respect to contributions by owners and distributions to owners; and

(c) the requirements specified in AASB 1004 with respect to contributions by owners and distributions to owners, including those arising in relation to restructures of administrative arrangements.

GAAP/GFS convergence

BC174 The Board discussed implications of its decisions on GAAP/GFS harmonisation. The Board noted that differences between Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) may arise in relation to the following:

(a) timing of recognition of income tax revenue – income tax revenue is recognised under GFS in advance of AASB 1058 (see Appendix C of AASB 9);

(b) timing of recognition of property tax revenue – property tax revenue is recognised under GFS later than AASB 1058 (see Appendix C of AASB 9). The Board considered constituent feedback that GFS requires income to be recognised progressively over the period of the levy;

(c) timing of revenue recognition on transfer of goods – GFS generally recognises revenue on legal change in title, while AASB 1058, with limited exception, requires income to be recognised on recognition of the asset. Under Australian Accounting Standards, an entity must control the asset for recognition to occur, which could be at a point in time earlier than on legal change in title;

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(d) recognised income for certain volunteer services received – GFS does not recognise any income representing the fair value of volunteer services received; and

(e) recognition of provisions in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* – the amount of income recognised under GAAP and GFS will differ where a provision relating to the transaction or event is recognised in accordance with Australian Accounting Standards but not under GFS.

BC175 The Board weighed its policy on GAAP/GFS harmonisation against its policy of transaction neutrality. The Board observed that some areas of potential difference were known when developing AASB 1049. Others were more likely to give rise to differences only in interim reporting periods, or are driven by a difference in the underlying principles. Further, some differences could only be addressed by making changes to the underlying principles in AASB 1058 and AASB 15.

BC176 On balance, the Board considered that it was not necessary to amend its decisions reflected in AASB 1058 in order to achieve GAAP/GFS harmonisation. The Board noted that AASB 1049 *Whole of Government and General Government Sector Financial Reporting* will require entities to identify and explain any differences arising from different requirements in GAAP as compared to GFS.

Comparison with International Public Sector Accounting Standards

BC177 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*;

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

BC178 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 of 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.

BC179 The Board further noted the IPSASB is currently developing proposals for the accounting of 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 revenue recognition requirements. The Board noted that the issues to be considered under the IPSASB revenue project could result in outcomes that are similar to what the Board had achieved in finalising AASB 1058. The IPSASB expects to complete these projects in 2019. The Board noted that it would consider undertaking a project to review the accounting specified by AASB 1058 following the completion of these projects.

BC180 The Board noted the following differences between AASB 1058 and IPSAS 9, IPSAS 11 and IPSAS 23 arise as a result of its decisions in finalising AASB 1058:

(a) recognition criteria – the Board decided not to specify asset recognition criteria in AASB 1058, but to require an entity to recognise assets as specified by other Australian Accounting Standards (other than in respect of volunteer services). In contrast, IPSAS 23 specifies that an asset is recognised where it is probable that future economic benefits or service potential will flow to the entity and its fair value can be measured reliably;

(b) fair value of an asset – the consequential amendments arising from AASB 1058 require various assets acquired for consideration that is significantly less than the fair value of the asset principally to enable the entity to further its objectives, to be initially measured at fair value in accordance with AASB 13. AASB 1058 also requires any related amounts to the asset to be recognised and measured in accordance with other Australian Accounting Standards. The IPSASB does not have a fair value measurement standard similar to AASB 13 and therefore IPSAS 9, IPSAS 11 and IPSAS 23 do not include such a reference;

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(c) exchange and non-exchange transactions – IPSAS 9 and IPSAS 23 require income recognition based on whether it is an exchange or non-exchange transaction (a transaction in which the entity receives value from another entity without giving approximately equal value in exchange) respectively. IPSAS 23 requires a non-exchange transfer to be recognised as an asset and corresponding revenue when the entity does not have a liability in respect of the same asset. Where a liability is initially recognised, an entity recognises revenue and reduces the liability when it satisfies the present obligations associated with the asset. Except in certain specified instances, AASB 1058 requires an entity to recognise as income immediately in profit or loss the excess of the initial carrying amount of an asset over the related amounts recognised in accordance with other Australian Accounting Standards in the form of contributions by owners, liabilities and revenue;

(d) volunteer services – IPSAS 23 permits an entity to elect whether to recognise services in-kind (ie volunteer services) as revenue and an asset. AASB 1058 requires local government, government departments, general government sectors and whole of government to recognise volunteer services as income (or where appropriate, a contribution by owner) if the fair value of the services can be measured reliably and if the services would have been purchased if they had not been donated. All other entities may elect to recognise volunteer services if those services can be measured reliably; and

(e) disclosure – AASB 1058 includes a number of disclosure requirements that are not included in IPSAS 9, IPSAS 11 and IPSAS 23, such as the requirement for government departments to disclose information relating to compliance with parliamentary appropriations and other externally imposed requirements. IPSAS 9 and IPSAS 23 require some disclosures that are not included in AASB 1058, such as the disclosure of the methods adopted to determine the stage of completion of transactions involving the rendering of services. Additionally, IPSAS 23 encourages, but does not require, the disclosure about the nature and type of all volunteer services received, whether they are recognised or not. This contrasts with AASB 1058, which requires the disclosure of volunteer services that are recognised during the period, and encourages disclosure about the nature of the entity's dependence on volunteer services, including those not recognised.

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