Technical Accounting Alert

AASB releases new income recognition requirements for NFP entities

Introduction

On 20 December 2016, the Australian Accounting Standards Board (AASB) released its new income recognition requirements for not-for-profit (NFP) entities following the completion of its long-running project 'Income of NFP Entities' which was initiated by the AASB a decade ago.

The new requirements, which present a significant change for the NFP sector, are contained in the following three (3) standards:

- AASB 1058 *Income of Not-for-Profit Entities*
- AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities*
- AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*

AASB 1058 applies to transactions where the consideration given to acquire an asset (including cash) is significantly less than fair value of the asset principally to enable a not-for-profit entity to further its objectives. Where the consideration provided under a transaction solely involves performance obligations under an enforceable contract and are sufficiently specific, it is accounted for under AASB 15 *Revenue from Contracts with Customers*.

AASB 1058 *Income of Not-for-Profit Entities*

AASB 1058 clarifies and simplifies the income recognition requirements that apply to NFP entities, in conjunction with AASB 15. These Standards supersede all the income recognition requirements relating to private sector NFP entities, and the majority of income recognition requirements relating to public sector NFP entities, previously in AASB 1004 *Contributions*.

The requirements of AASB 1058 more closely reflect the economic reality of NFP entity transactions that are not contracts with customers. The timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset) received by an entity.

This new standard will apply when a NFP entity receives volunteer services or enters into other transactions where the consideration to acquire an asset is significantly less than the fair value of the asset principally to enable the entity to further its objectives. In the latter case, the entity will recognise and measure the asset at fair value in accordance with the applicable Australian Accounting Standard (e.g. AASB 116 *Property, Plant and Equipment*).

Upon initial recognition of the asset, this Standard will require the entity to consider whether any other financial statement elements (called 'related amounts') should be recognised, such as:

a contributions by owners;
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.

These related amounts will be accounted for in accordance with the applicable Australian Accounting Standard.

If the transaction is 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 (i.e. an in-substance acquisition of a non-financial asset), the entity will recognise a liability for the excess of the fair value of the transfer over any related amounts recognised. The entity will recognise income as it satisfies its obligations under the transfer similarly to income recognition in relation to performance obligations under AASB 15.

If the transaction does not enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity, then any excess of the initial carrying amount of the recognised asset over the related amounts will be recognised as income.

When an entity receives volunteer services and can reliably measure the fair value of those services, the entity may elect to recognise the services as an asset (provided the relevant asset recognition criteria are met) or an expense. Local governments, government departments, general government sectors and whole of governments are required to recognise volunteer services if they would have been purchased if not provided voluntarily and the fair value of those services can be measured reliably.

AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities*

AASB 2016-7 amends the mandatory effective date of AASB 15 for not-for-profit entities so that AASB 15 is required to be applied by such entities for annual reporting periods beginning on or after 1 January 2019 instead of 1 January 2018.

AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*

AASB 2016-8 inserts Australian requirements and authoritative implementation guidance for not-for-profit entities into AASB 9 *Financial Instruments* (2014) and AASB 15. This guidance assists not-for-profit entities in applying those Standards.

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

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

a identifying a contract with a customer;
b identifying performance obligations; and
c allocating the transaction price to performance obligations.

Effective date

AASB 1058 and AASB 2016-8 apply to annual periods beginning on or after 1 January 2019, whereas AASB 2016-7 applies to annual periods beginning on or after 1 January 2017.

Further information

For further information on any of the information included in this Technical Accounting Alert, please get in touch with your local Grant Thornton Australia contact or a member of the National Audit Support Team at nationalaudit.support@au.gt.com.