




Income of Not-for-Profit Entities
- AASB 10XX




Your presenters



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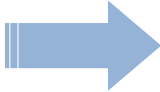
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Background

- New revenue standard AASB 15 replacing AASB 118
 - based on satisfying performance obligations to a customer through contractual arrangement
- Need to replace AASB 1004

non-reciprocal transfers



satisfying performance obligations



Structure of the Project

- 2 new standards:
 1. AASB 10XX *Income of Not-for-Profit Entities*
 2. AASB 2016-X *Australian Implementation Guidance for Not-for-Profit Entities – Revenue from Contracts with Customers (AASB 15)*
- Consequential amendments to other standards

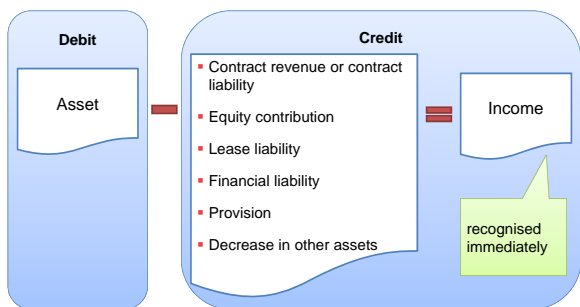
4

Project objectives

- Account for transactions where the consideration paid is significantly less than fair value; and
- Discount arises principally to assist the NFP achieve its objectives
 - excludes effects of distress sales, trade discounts, etc
- Applicable from 1 January 2019
 - applies the same date as:
 - new leases standard
 - new 'revenue from contracts' standard for NFPs

5

AASB 10XX - Core principle



6

Donation elements

- assets acquired at less than fair value

- 1) A Church diocese transfers 2 acres (4,000m²) of land to a private school for \$1.3m to enable expansion of the school. Neither party has obtained an independent valuation of the land.

- 2) A government department leases a surplus and unused 1,000m² heritage building to a charity for \$100 per month for 10 years provided the charity also refurbishes and maintains the property. Those costs are estimated to total \$100,000. (Total cost over 10 yrs = \$112,000 or \$930pm)

10



Donation elements - below market leases – AASB 16

Applying new income standard and new leases standard at same time:

- ROU lease asset measured at FV
- Lease liability measured at present value of lease payments
- Difference recognised in retained earnings / income

11



Below market leases - example

NFP enters a ten year lease with a related party (the lessor) for the use of a building. The lease contract specifies fixed lease payments of \$1 per annum. At the inception of the lease, the fair value of the right to use the leased property for ten years is \$360,000.

Existing lease standard

- Lease classified as operating lease
- Continue current operating lease accounting
- No lease asset, liability or income recognised

New lease standard

- NFP recognises:
- a lease asset at its fair value of \$360,000;
 - Lease liability of \$7; and
 - the difference recognised as income at inception of the lease

12





Recognising the credit

- Contract revenue or contract liability
- Equity contribution
- Lease liability
- Financial liabilities
- Provision
- Decrease in other assets

Revenue from contracts with Customers (AASB 15)

- Enforceable agreements with customers
- Sufficiently specific performance obligations

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14

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Recognising the credit

- Contract revenue or contract liability
- Equity contribution
- Lease liability
- Financial liabilities
- Provision
- Decrease in other assets

Equity transactions

- Issue of shares
- Trust funds

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15

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Recognising the credit

- Contract revenue or contract liability
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Lease liabilities

- Finance lease liability – AASB 117
- Lease liability – AASB 16

Different to current standards

16

Recognising the credit

- Contract revenue or contract liability
- Equity contribution
- Lease liability
- Financial liabilities
- Provision
- Decrease in other assets

Financial liabilities

- Consideration payable
- Other loans and payables

17

Recognising the credit

- Contract revenue or contract liability
- Equity contribution
- Lease liability
- Financial liabilities
- Provision
- Decrease in other assets

Constructive obligations

- Past practice, published policies, specific statements
- Valid expectation that it will perform

18

Recognising the credit

- Contract revenue or contract liability
- Equity contribution
- Lease liability
- Financial liabilities
- Provision
- Decrease in other assets
 - Eg, cash payment

19

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Recognising the credit

- Contract liability or contract revenue (AASB 15)**
- Equity contribution
- Lease liability
- Financial instrument
- Provision
- Decrease in other assets

20

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Contract with a customer – AASB 15

Enforceable

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- Right to enforce obligations through legal or equivalent means
- Right to enforce specific performance

and

Performance Obligations

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- Sufficiently specific promise
 - Nature or type of goods/services
 - Cost or value
 - Quantity
- Time-only condition is not a performance obligation

21

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Contract with a customer

- Capacity to withhold future funding not presently entitled to; or
- NFP statement of intent to spend/use in a particular way

By themselves

Not an enforceable agreement

- If not both enforceable and identifiable specific obligations, transaction is not in scope of AASB 15

22



Grant contract – example 1

In December 2016, Charity C receives a government grant to provide youth crisis services. The agreement specifies the grant must be spent providing those services throughout the year ending 31 December 2017.

The arrangement may be enforceable but it does not represent a contract with a customer as the grant does not contain performance obligations with sufficient specificity to determine when those conditions are satisfied. A time-only condition does not represent a performance obligation.

Charity C recognises revenue in the period it gains control of the grant (2016).

23



Grant contract – example 2

In December 2016, Charity D receives a government grant to provide youth crisis counselling services. The agreement specifies the grant must be spent on specific services for a specific number of hours per week throughout the year ending 31 December 2017.

Arrangement is a contract with a customer. Charity D's obligation to transfer the specific services in exchange for the consideration from the grantor is:

- sufficiently specific in how the grant must be spent; and
- is enforceable, as the grantor can enforce its rights in the contract.

Charity D recognises revenue in the period as it satisfies its performance obligations by providing the promised services.

24



Donation elements in customer contracts

- Eg, contract to sell goods with a FV of \$100 for \$1000

Rebuttable presumption all consideration relates to performance obligation unless a component is

- Non-refundable; and
- Separately identifiable from other performance obligations

Recognise donation element separately

25

Capital grants and appeals



Transfers to construct an asset

Income is deferred and recognised as or when the conditions are satisfied provided:

- contribution requires the entity to acquire or construct a non-financial asset to identified specifications; and
- no transfer of a financial asset, good or service back to the transferor; and
- refund obligation if the funds are not spent in accordance with the terms of the contribution

27

Capital grants & appeals – example 1

1 July 2016 a school receives from government a cash grant of \$2,000,000 to build an Early Learning Centre (ELC) on the school's land to the standard specified by Department regulations. The school must return all unspent money.
At the end of the first year (31 December 2016), 60 percent of all activities required to complete the project had been undertaken and \$1,200,000 of the funding was spent.
The ELC was completed by 31 December 2017 and the \$2,000,000 was fully spent.

Recognise income of \$1.2m in 2016; and \$800k in 2017.

28



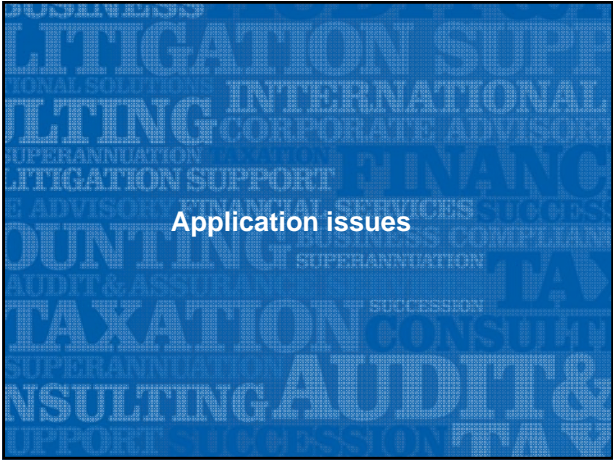
Capital grants & appeals – example 2

- I. School B established a building fund to solely provide money for acquiring, constructing or maintaining a building used, or to be used, as a school. The building fund has DGR status.
- II. The school launched a philanthropic drive intended to raise funds for classroom upgrades in all existing buildings and provide covered outdoor learning spaces and facilities at the school.

- No agreed specifications
 - No refund obligation
- Income on receipt

29





Application complexity

- Which standard should I apply for the credit?

AASB 15

- Contract with customer
- Providing goods or services to a customer
 - Tuition fees
 - Specific grants

AASB 10XX

- Capital grants
- Unconditional donations, gifts
- General government grants
- Below market leases

AASB 139 / 137

- Financial liabilities
- Constructive obligations

- Identifying transactions significantly below fair value
 - audit cost and complexity

31

Transition

- Elect to apply the AASB 15 & AASB 10XX standards either:
 - fully retrospectively; or
 - on a modified retrospective basis from the beginning of the first year of adoption.

Under this method there would be no restatement of comparative financial information.

- Completed transactions and those fully recognised under AASB 1004 need not be restated

32

In summary...

- Transactions significantly below fair value
 - Leases
 - Acquisition of assets
- Identifying terms and conditions of donations and grants
 - Sufficiently specific conditions
- Identifying donation elements in customer contracts
- Capital grants

33

Next Steps

Identification

- Arrangements in scope

Assessment

- Data capture
- Judgements and assessments
- Impact analysis

Implementation

- System changes and redesign
- Stakeholder engagement
- Strategic considerations

34

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37