

# TREASURY ANALYSIS – INTERNATIONAL ACCOUNTING STANDARDS

## AASB 1004 “Contributions” replaces part of AAS 15 / AASB 1004

### Major impacts of changes – *not-for-profit entities only*

- *Not-for-profit entities* will be subject to the AASB 1004 requirements regarding contributions of assets (including grants) and forgiveness of liabilities (i.e. which is identical to previous requirements) OR the proposals in ED 125 *Financial Reporting by Local Governments* or ED 147 *Revenue from Non-Exchange Transactions (including Taxes and Transfers)*.
- Treasury’s preference is to mandate early adoption of the ED 125 or ED 147 proposals. However, because deliberations on ED 125 and ED 147 are not yet complete, agencies have been instructed NOT to adjust the current treatment of grants, until otherwise advised.
- If the ED 125 or ED 147 approach is applied, revenue and / or expense recognition will not occur until, either, the agency supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until in-substance conditions are satisfied.
- ED 125 and ED 147 may therefore delay revenue recognition compared to AASB 1004, where grants were recognised when controlled.

### Key features of AASB 1004

- For *not-for-profit entities*, AASB 1004 carries forward the previous AASB 1004 requirements regarding contributions of assets and forgiveness of liabilities (but may be amended by proposals in ED 125 or ED 147 – see below). Other forms of revenue are addressed in AASB 118 *Revenue* (see separate *Treasury Analysis*).

### Key features of ED 125 proposals on Grants

#### *Background*

- The AASB 1004 requirements for contributions of assets may be amended by the proposals in ED 125. The AASB has indicated that these proposals, if approved, will also be used to amend AAS 29 *Financial Reporting by Government Departments*.

#### *Grant recognition*

- *Two classes of voluntary transfers* – ED 125 makes a distinction between agreements that are, and are NOT, in-substance agreements for the provision of goods and services (para 8.1.1).
- *In-substance agreements for provision of goods and services* – exists only if the agreement includes (para 8.2.1):
  - Specification of the goods and services to be provided i.e. quantities.
  - A reliable acquittal process to determine whether goods or services have been provided.
  - The purchaser has the right to refuse payment or demand repayment, where acquittal indicates that the goods and services provided are less than the agreed quantity, quality etc.
  - Accounting treatment – revenue / expense is recognised when control of goods passes or services are provided (para 8.2.9-8.2.17).
- *NOT in-substance agreements for goods and services* – distinguishes between grants with:
  - *Restrictions on purpose or use* – these do not give rise to a liability (or asset) i.e. revenue (or expense) is recognised when enforceable (para 8.3.1-8.3.5).
  - *Conditions (i.e. gives right of compensation or return)* – may initially give rise to liability (or asset) rather than revenue (or expense) i.e. revenue (or expense) are recognised when condition/s met (para 8.3.6-8.3.19).
  - *Time requirements* – ED 125 states that agreements that have *restrictions* as to the period during which they may be used are treated as ‘restrictions on purpose or use’, per above (i.e. do not give rise to a liability). However, while not explicit in the ED, ‘time’ may also be a condition, where the agreement specifies a right of return if the time requirement is not met.

### **Main differences compared to previous Australian requirements**

- *AASB 1004* - There are no differences to the previous AASB 1004.
- *ED 125* – Under ED 125, revenue recognition is likely to be delayed until the agency supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until conditions are satisfied. Previously under AASB 1004, grants were recognised as revenue when, among other things, they were controlled (normally on receipt) and not recognised as a liability unless or until a condition was breached and the grant was repayable. Although the ED 125 approach removes the previous reciprocal / non-reciprocal distinction, it in effect replaces this with a similar concept i.e. in-substance agreements for the provision of goods and services.

### **Impact on the public sector**

- The impact on the public sector of the treatment of grants is currently uncertain because:
  - The requirements for *for-profit entities* (AASB 120) and *not-for profit entities* (AASB 1004) are different; and
  - There are two different potential scenarios for both *for-profit entities* (i.e. current AASB 120 or a proposed revised AASB 120, based on AASB 141) and *not-for-profit entities* (i.e. AASB 1004 or ED 125 proposals), depending on whether amendments can be early adopted. Refer separate *Treasury Analysis* on AASB 120 for *for-profit entities*.
- In Treasury's view, the proposed amendments to AASB 1004/AAS 29 (based on ED 125) and AASB 120 (based on AASB 141) will result in a similar outcome, assuming that:
  - most 'grants' are not agreements for the provision of goods and services; and
  - 'time' can be a condition under both AASB 141 and ED 125.If so, in general terms, *both* ED 125 and AASB 141 delay revenue recognition until in-substance conditions are met.

### **Policy and Implementation issues**

- *Early adoption* – Treasury's preference is to mandate early adoption of the ED 125 proposals. However, because deliberations on ED 125 are not yet complete, agencies have been instructed NOT to adjust the current treatment of grants, until otherwise advised.
- *Reviewing grant agreements* - Agencies need to review their grant agreements to assess the potential impact of the ED 125 proposals on the recognition of grants i.e. to determine whether a grant recognised as revenue under previous requirements meets the ED 125 revenue recognition criteria. Treasury's preliminary view is that most agreements formerly described as 'grants' are not in-substance agreements for the provision of goods and services. However, agencies will need to review the substance of any agreements and assess the impact on a case by case basis, based on the definition and criteria.

### **AASB Recent developments – ED 147**

- Subsequent to ED 125, the AASB has issued ED 147 *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)* for comment. ED 147 is based on an equivalent Exposure Draft issued by the International Public Sector Accounting Standards Board.
- ED 147 is similar to ED 125, as it potentially delays income recognition until conditions are satisfied. In determining whether a stipulation is a condition, the entity must consider its substance and not merely the form. Therefore an entity must consider whether the return obligation is enforceable, whether performance is monitored on an ongoing basis etc. This is similar to the 'in-substance' criteria in ED 125, para 8.2.1. In addition, ED 147 provides that 'advance receipts' are initially recognised as a liability. Advance receipts are resources received prior to a taxable event or a transfer arrangement becomes binding. This is similar to treating 'time' as a condition.
- As with ED 125, Treasury's preference would have been to early adopt ED 147. However, because deliberations on ED 147 are not yet complete, agencies have been instructed NOT to adjust the current treatment of grants, until otherwise advised.

This summary has been written in general terms and is intended for general reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.

**SUMMARY OF POLICY, IMPLEMENTATION & SYSTEM ISSUES**  
**AASB 1004 “CONTRIBUTIONS”**  
**TREASURY & AGENCIES**

	Issue	Treasury Policy		System/ Implementation Issue	GFS Issues	Total State Sector Issues
		Mandate Option	Additional guidance			
1	Early adoption – of ED 125 or ED 147 proposals on grants	X Agencies instructed NOT to adjust current treatment, until otherwise advised.		√		√
2	Review of grant agreements – if the ED 125 or ED 147 approach is adopted, on first time adoption may result in recognition of a liability where a grant recognised as revenue under previous requirements does not meet the ED 125 / ED 147 recognition criteria.			√		√