NSW GOVERNMENT | Treasury

Guidance for AASB 1058 Income of not-for-profit entities

6 December 2017

Contents

1. Overview

1.1 Objective

AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058) is effective for NSW not-for-profit (NFP) public sector agencies from FY2019/20. AASB 1058 replaces most of the NFP income recognition requirements in AASB 1004 *Contributions* (AASB 1004). The scope of AASB 1004 is now limited mainly to parliamentary appropriations, administrative arrangements and contributions by owners.

The purpose of AASB 1058 is to more closely recognise NFP income transactions that are not contracts with customers in accordance with their economic reality.

AASB 1058 needs to be considered in conjunction with AASB 15 *Revenue from Contracts with Customers* (AASB 15), that also applies to NFPs from FY 2019/20.

This Treasury guidance provides an overview of the requirements of AASB 1058 including disclosures and practical transitional impacts. Agencies, however, still need to review AASB 1058 in detail to ensure they understand its requirements.

1.2 Main impacts

A key feature of AASB 1058 is that it is necessary to first determine whether each transaction, or part of that transaction, falls in the scope of AASB 15. Only if AASB 15 does not apply, is AASB 1058 considered. This is discussed in more detail in Section 2.

The main impacts of AASB 1058 are:

- The timing of income recognition will depend on whether there is any performance obligation or other liability. This will result in better matching of income and related expenses.
- NFP lessees will now recognise peppercorn leases as right-of-use assets at fair value.
- All NFP entities can elect to recognise volunteer services if they can be reliably measured.

1.3 Scope

AASB 1058 applies to (AASB 1058.1):

(a) transactions where the consideration to acquire an asset is significantly less than its fair value, principally to enable a not-for-profit entity to further its objectives, **i.e. a 'donation transaction'**; and (b) the receipt of volunteer services

The following are excluded from the scope of AASB 1058 (para 7):

- share-based payment transactions
- business combinations
- insurance contracts
- restructures of administrative arrangements within the scope of AASB 1004
- licences outside the scope of AASB 15
- income taxes within the scope of AASB 112 *Income Taxes*

AASB 1058 does not apply for income recognition where a transaction falls completely under the scope of AASB 15 (see Section 2.4).

2. Identifying the relevant Standard(s)

2.1 The Relevant Accounting Standards

AASB 15 *Revenue from Contracts with Customers* AASB 1058 *Income of Not-for-Profit Entities* AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*

AASB 15 applies to both for-profit and NFP entities, where the criteria for a contract with a customer exist. This is discussed in more detail at Section 2.4.

AASB 2016-8 amends AASB 15 to add guidance for NFP entities.

AASB 1058 applies only to NFP entities, and then, only where AASB 15 does not apply.

Treasury will publish separate guidance on AASB 15. However this NFP guidance should be used in determining which Standard(s) apply to a particular class of transactions. It also considers transactions that have components within the scope of AASB 15 and components within the scope of AASB 1058.

2.2 Scope of AASB 1004

AASB 1004 remains in force, albeit in a reduced form. The scope of AASB 1004 is now limited mainly to:

- parliamentary appropriations to Government departments
- administrative arrangements
- contributions by owners and distributions to owners

For the above items, the timing of the income recognition continues to be based on when control of the funds passes to the NFP entity or when the NFP entity has an enforceable right to receive funds.

2.3 New income recognition model

A key feature of the new model for income recognition is that NFP entities must first determine whether a transaction falls within one of the two standards or in both: AASB 1058 or AASB 15. This means identifying whether a transaction is a:

- contract with a customer; or
- genuine 'donation' or volunteer service

The application guidance in AASB 1058 and the implementation guidance in AASB 2016-8 will assist in determining the appropriate standard.

2.4 Which standard will apply

Step 1	NFP entities should first determine whether a transaction is a contract with a customer under AASB 15. To be in scope of AASB 15, there should be: ▪ an **'enforceable contract' –** i.e. the contract between two or more parties must create enforceable rights and obligations ▪ **'sufficiently specific performance obligations'** – i.e. the NFP entity's promise to transfer a good or service must be sufficiently specific ▪ **'underlying goods or services are not retained by the entity'** – i.e. the goods or services will be transferred to the customer or to other parties on behalf of the customer (AASB 1058.IE5) and not retained by the entity for its own use. The above criteria are explained in Section 2.5 below. If all criteria are met, income is recognised under AASB 15 when (or as) the performance obligations under the contract are satisfied. If any of these criteria are not met, then complete Step 2.
Step 2	Determine if a volunteer service has been received or there is a significant 'donation' component in the contract. A donation component and thereby a donation transaction exists if: ▪ the **consideration to acquire an asset is significantly less than its fair value; and** ▪ the **intent is to primarily to enable the NFP entity to further its objectives** AASB 1058 applies if NFP entities enter into 'donation' transactions as above or receive volunteer services.

In summary, AASB 1058 does not apply when a transaction completely falls under the scope of AASB 15 as a contract with a customer. This is when the transaction has the all the following characteristics:

- enforceable and has sufficiently specific obligations;
- goods or services are not retained by the entity for its own use; and
- it is neither a donation transaction nor any volunteer services are received

Contracts with customers may contain a donation component

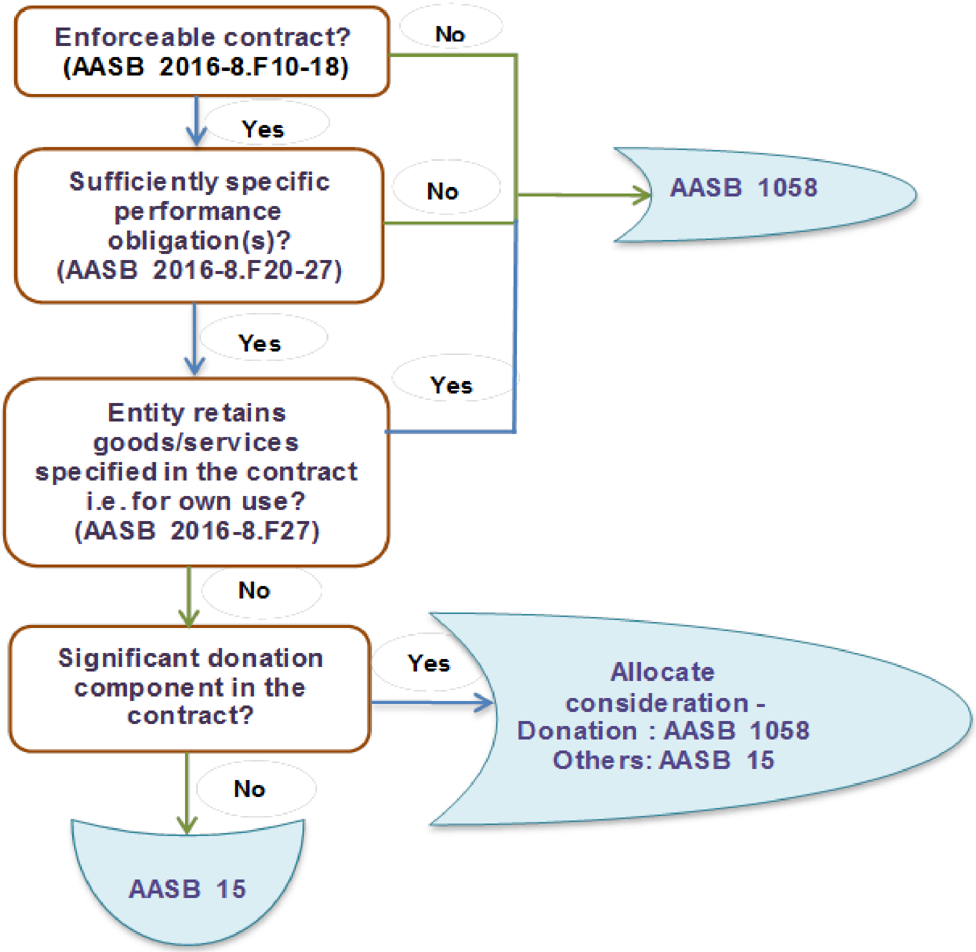
In some circumstances a contract with a customer may contain a 'donation' component. In other words, the transaction includes both non-donation and donation components. The contract should then be allocated between AASB 15 and AASB 1058 to ensure appropriate income recognition.

Following steps 1 to 4 described in Section 3.2 will result in recognition of a contract obligation under AASB 15 for the non-donation component. The residual income is then recognised under AASB 1058 as a donation component.

Separation of AASB 15 and AASB 1058 components is required if the AASB 15 component is material at the individual contract level (AASB 1058.BC29).

Determining the appropriate standard will be challenging for some income streams and involves judgement on contract enforceability, specificity of obligations and whether goods or services are transferred to the customer. Further, there could be instances where an arrangement consists of both commercial and donation components. Therefore agencies should perform a detailed contract review in respect of their income streams to determine appropriate income recognition.

Decision tree for which standard to apply



2.5 Scope of AASB 15 (Step 1)

To be in scope of AASB 15, there must be:

- an **'enforceable contract'** – i.e. a contract between two or more parties (including a customer) must create enforceable rights and obligations
- **'sufficiently specific performance obligations'** – i.e. the promise to transfer a good or service must be sufficiently specific
- **'underlying goods or services are not retained by the entity'** – i.e. the goods or services will be transferred to the customer or to other parties on behalf of the customer and not retained by the entity for its own use (AASB 1058.IE5)

AASB 15 was written with a focus on for-profit entities. AASB 2016-8 was subsequently published with amendments to AASB 15 to assist application to NFP entities. AASB 2016-8 includes an appendix to AASB 15 with implementation guidance on key criteria of 'customer', 'enforceable contract' and 'performance obligations' in a NFP environment, to assist in determining whether a transaction is in the scope of AASB 15.

NSW Treasury will publish separate guidance on AASB 15, and agencies should refer to this guidance for detailed analysis of each of these criteria. However, in summary:

Customer

- The customer of an NFP entity is the party that promises consideration in exchange for goods or services that are an output of the entity's ordinary activities.
- The customer might direct that goods or services shall be provided to third-party beneficiaries including individuals or the community at large.

Enforceable contract

- A contract may be enforceable through legal or equivalent means.
- The enforceability of agreements does not depend on their form. For example, documents such as Memoranda of Understanding, Heads of Agreement and Letters of Intent can constitute legally enforceable agreements.
- The statement of intent is generally a public policy statement, and does not identify parties who could enforce the statement. Such a statement of intent would, of itself, be insufficient to create an enforceable agreement. This is in contrast to a letter of intent which is typically an agreement between specifically identified parties.
- A transferor's capacity to withhold future funding to which the entity is not presently entitled, would not, by itself, create an enforceable agreement.
- Agreements that explicitly state they are not intended to be legally binding may nonetheless become enforceable agreements if the parties act in a manner that is inconsistent with the stated intention.
- Agreements that lack elements of a contract may nonetheless become legally enforceable if there is conduct by one party that causes the other party to act in reliance on such conduct.
- Enforcement mechanisms may arise from administrative arrangements or statutory provisions e.g. a directive from a Minister or government department to a public sector controlled entity.
- Whether a contract is enforceable does not depend on the customer's history of enforcing such agreements or the customer's intention to enforce its rights. Enforceability depends solely on the customer's capacity to enforce its rights.
- A contract may have commercial substance even if it is non-commercial to the NFP entity (for example, subsidised goods or services). 'Commercial substance' shall be read as a reference to economic substance (i.e. giving rise to substantive rights and obligations).

Performance obligations

- Each promise to transfer goods or services needs to be distinct – individually, or if not individually, as a bundle combined with other promises. A good or service is capable of being distinct if the customer can benefit from the good or service either on its own or together with other resources and the promise is separately identifiable.
- The specificity of the promise to transfer goods or services can be quite different from the for-profit sector. The promise of the NFP entity should be sufficiently specific to determine when the obligation is satisfied.
- Whether a promise is sufficiently specific involves judgement, taking into account the implicit and explicit conditions including nature, type, value or quantity of the goods or services and the period over which those goods or services are to be transferred.
- A statement of intent alone is generally not enough to create a performance obligation.
- A condition that a NFP entity should transfer unspecified goods or services within a particular period does not, by itself, meet the 'sufficiently specific' criterion. For example, where a NFP entity receives an endowment to be used for an unspecified purpose over a particular time period, such a promise is not sufficiently specific.
- Although not a necessary precondition, an acquittal process to demonstrate progress towards transferring goods or services may provide evidence of a sufficiently specific promise.

It is recommended agencies review the illustrative examples of AASB 2016-8 to understand how NFP agencies determine whether transactions are in the scope of AASB 15.

If a transaction is in the scope of AASB 15, a NFP entity recognises income at an amount that reflects the consideration entitled in exchange for transferring goods or services to a customer. NFP entities should apply the five-step income recognition model (refer to NSW Treasury's guidance on AASB 15) to recognise income.

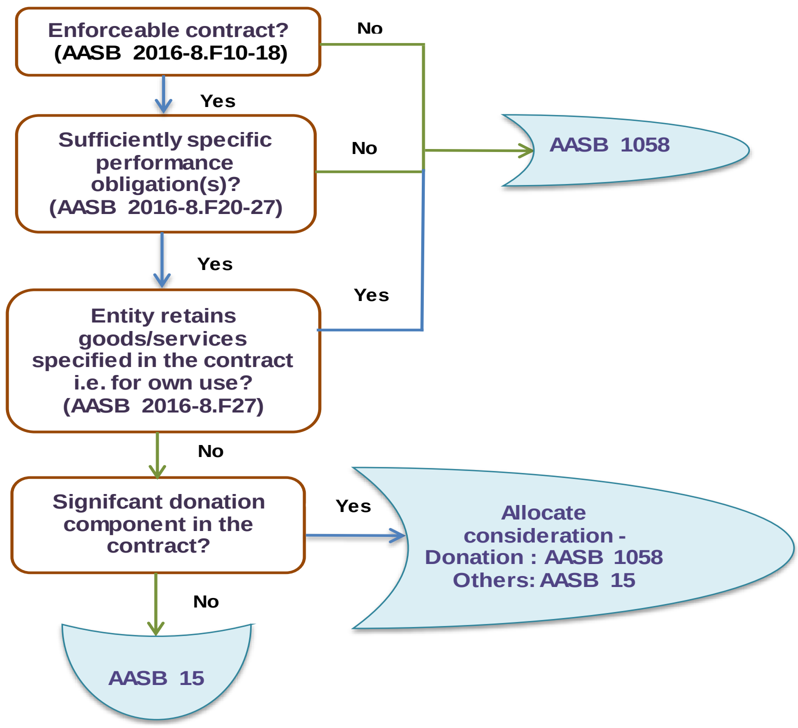
3. AASB 1058 -Scope and Accounting Treatment (Step 2)

3.1 Scope of AASB 1058

AASB 1058 applies when a NFP entity (AASB 1058.1):

- enters into a 'donation' transaction (i.e. where the consideration to acquire an asset is significantly less than fair value) principally to enable the entity to further its objectives; or
- receives volunteer services

Decision tree on Scope



3.2 'Donation' transactions

What is a 'donation'?

'Donation' transactions have the following key characteristics (AASB 1058.1(a)): ▪ the NFP entity receives an asset (cash or other assets); ▪ the consideration for that asset is significantly less than its fair value; and ▪ the transaction is principally to enable the NFP entity to further its objectives

***Examples of 'donation' transactions* (AASB 1058.B2):**

- cash and other assets received from grants, endowments, bequests or donations
- receipts of appropriations by government departments and other public sector entities
- receipts of taxes, rates or fines
- assets acquired or constructed for nominal or low amounts

Other considerations in determining what is/is not a donation

Where the consideration provided solely involves performance obligations recognised in accordance with AASB 15, the asset is not acquired for consideration that is **significantly less than fair value** (AASB 1058.B5) and is not therefore a donation.

When assessing whether the transaction principally **enables the NFP entity to further its objectives**, 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 transaction is principally for enabling the entity to further its objectives. For example, trade discounts available to all NFP entities are not considered to principally further the entity's objectives (AASB 1058.B4).

Transactions may include donation elements and other elements with consideration at fair value. For example, a donation may be present in a contract in which a customer promises consideration in exchange for goods or services (e.g. a fundraising dinner).

Accounting treatment for donations

The approach in AASB 1058 is to operate on a residual basis i.e. NFP entities first apply other applicable Australian Accounting Standards to a transaction before recognising income in accordance with AASB 1058. Accordingly, a NFP entity should recognise the asset received and then any related liabilities, with the donation being the residual and recognised as income immediately. This is demonstrated in the steps 1 to 3 below. The exception to immediate income recognition is a capital grant.

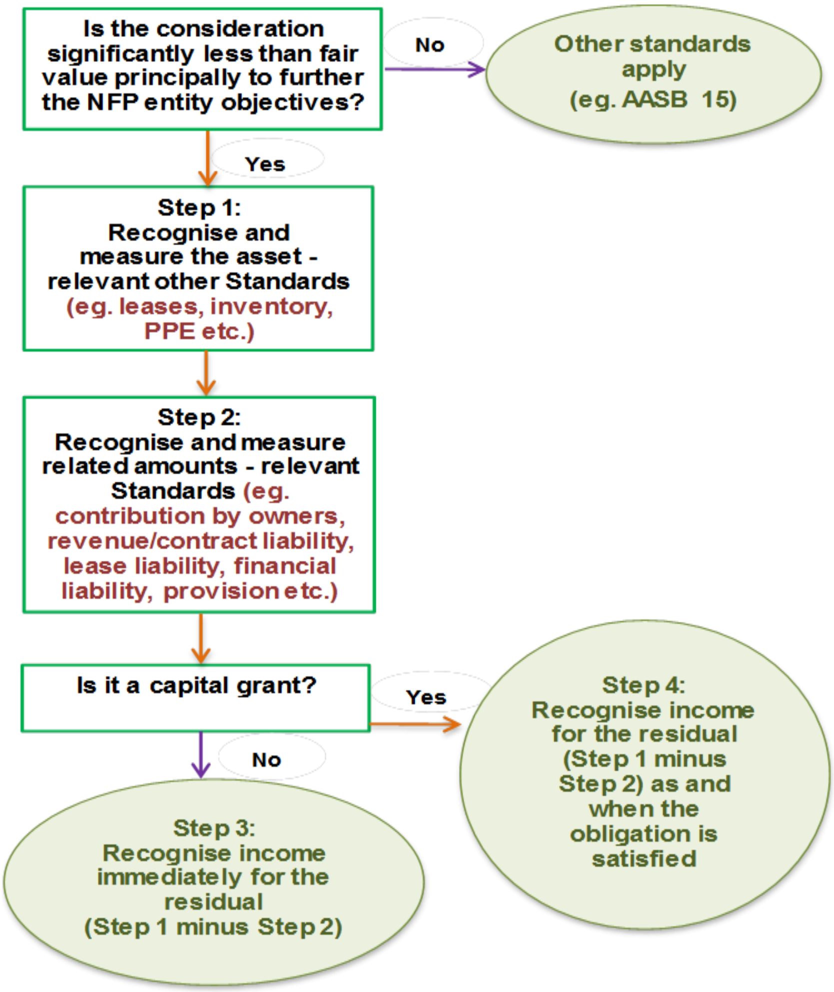
Capital grant is a type of donation where a NFP entity (AASB 1058.15):

- receives a financial asset to acquire or construct a non-financial asset to identified specifications;
- retains control of the non-financial asset (i.e. for its own use); and
- the transaction is enforceable

An entity should recognise a capital grant as income when (or as) it satisfies its obligations under the transfer (refer step 4 below).

Step 1 AASB 1058.8	Recognise the asset in accordance with applicable Australian Accounting Standard. For example: ▪ if cash is received - recognise as a financial asset ▪ if inventory is donated - recognise inventory under AASB 102 *Inventories*
Step 2 AASB 1058.9	Consider if the nature of the transaction gives rise to a 'related amount' in accordance with another Accounting Standard, such as: ▪ contributions by owners - AASB 1004; ▪ revenue or a contract liability from a contract with a customer - AASB 15; ▪ a lease liability - AASB 16 *Leases* (AASB 16); ▪ a financial instrument - AASB 9 *Financial Instruments* (AASB 9); or ▪ a provision - AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (AASB 137) If so, recognise the 'related amount' in accordance with the appropriate standard.
Step 3 AASB 1058.10	Recognise the residual (Step 1 minus Step 2) as income immediately. The only exception to this rule is a capital grant under Step 4.
Step 4 AASB 1058.16	*Receipt of capital grants* - The NFP entity recognises the residual (Step 1 minus Step 2) as income when (or as) the entity satisfies its obligations under the transfer.

Decision tree on accounting for 'Donation' transactions



Example 1 – Donation transaction: Contributions by owners

A Government department transfers cash appropriations of $500,000 to its controlled entity and designates the transfer as an equity contribution.

Analysis

The cash appropriation is an asset acquired by the controlled entity for no consideration to further the objectives of the controlled entity. It is therefore within the scope of AASB 1058.

The entity controls the cash, upon receipt, as a financial asset within the scope of AASB 9 (Step 1).

The related amount is a contribution by owners that meets the requirements of Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* and AASB 1004 (Step 2).

As a result, there is no residual income to be recognised under AASB 1058 (Step 3).

Accounting Treatment:

The cash appropriation will be recognised in equity at the value of the financial asset (i.e. cash received).

Journal entry:

Dr Cash	500,000	
Cr Equity – contributed capital		500,000

Example 2 – Donation transaction: Endowment received by a school

An alumnus transferred $1,000,000 to School A as an endowment. School A is required to provide an annual scholarship for one student's accommodation for a defined period of 20 years. The present value of this annual scholarship is estimated to be $800,000.

If School A breaches the terms of the endowment, it will be required to return the transferred amount to the alumnus.

Analysis

The cash endowment is an asset acquired by School A for no consideration to further its objectives. It is therefore within the scope of AASB 1058.

The entity controls the cash, upon receipt, as a financial asset within the scope of AASB 9 (Step 1). The related amount is a contract liability (Step 2) representing a performance obligation that is:

> *enforceable* - the funds are required to be refunded if the terms are breached; and

> *sufficiently specific* - the obligation to provide accommodation for one student each year is distinct, and will be satisfied by the end of 20 years.

The difference between the financial asset and the related contract liability is recognised as income under AASB 1058 (Step 3).

Accounting Treatment

School A will recognise cash of $1,000,000 as a financial asset on receipt. $800,000 is recognised as a related contract liability. The excess of $200,000 is recognised immediately as income.

Journal entry:

Initial recognition

Dr Cash	1,000,000	
Cr Contract liability		800,000
Cr Income		200,000

3.3 Types of 'Donation' transactions with examples

This section discusses recognition and measurement of some common 'donation' transactions in the NFP public sector with examples.

It is recommended the agencies review the illustrative examples of AASB 1058 to understand how a NFP entity should apply the steps in section 3.2 above to recognise income on 'donation' transactions, based on the relevant facts and circumstances.

3.3.1 Transfers to enable an entity to acquire or construct a recognisable non-financial asset (capital grants)

An entity may receive cash or other financial assets to construct or acquire a non-financial asset (e.g. building) for its own use i.e. a capital grant. Such capital grants can be received from Government departments, private sector entities or individuals.

Because the entity receiving the capital grant will construct or acquire the non-financial asset for its own use, the transaction does not establish rights and obligations for the transfer of the underlying asset to the transferor or other parties. Therefore the transaction is not in the scope of AASB 15 (AASB 2016-8.F27).

In substance, this is a donation and should be accounted under AASB 1058. The entity should recognise the financial asset received and the related obligation to acquire or construct the non-financial asset. This obligation is accounted for similar to a performance obligation under AASB 15 (AASB 1058.B16).

An entity should apply a single method of measuring progress for each obligation satisfied over time and apply that method consistently to similar obligations and circumstances. Income is recognised when (or as) the obligation is satisfied (AASB 1058.B17).

Example – Cash grant for the acquisition of hospital beds

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

Accounting Treatment

Under AASB 1058, cash received is recognised as a financial asset. There are no related amounts to recognise (i.e. no contribution by owner, contract liability under AASB 15, lease liability etc.). However Hospital X recognises the obligation to acquire the hospital beds as a liability. Hospital X recognises income as it acquires and controls the hospital beds.

Journal entries:

Initial recognition

Dr Cash	100,000	
Cr Obligation		100,000

First purchase of 6 beds

Dr Obligation	37,500 (i.e. 100,000 X 6/16)	
Cr Income		37,500
Dr Equipment	37,500	
CR Cash		37,500

Second purchase of remaining 10 beds

Dr Obligation	62,500 (i.e. 100,000 X 10/16)	
Cr Income		62,500
Dr Equipment	62,500	
CR Cash		62,500

Note:

The above is an example of income that is recognised at a point in time i.e. when the NFP entity acquires and obtains control of the non-financial asset.

Refer to Example 9 of the illustrative examples in AASB 1058 where an NFP entity recognises income over time in a cash grant for the construction of a building.

3.3.2 Parliamentary appropriations

Appropriations establish the authority to spend money for specific purposes. The timing of recognition of the financial asset (cash) under AASB 9 would be based on when control of the funds passes to the NFP entity, which is usually on receipt of the funds.

In NSW, Parliamentary appropriations are governed by the *Appropriations Act* ('the Act'). Appropriations are made from the Consolidated Fund to:

- Government Departments under Part 2 and 3 of the Act; and
- Special Offices (e.g. Judicial Commission of NSW, Office of the Children's Guardian) under Part 4.

The Consolidated Fund is administered by NSW Treasury and funded by state taxes and Commonwealth grants.

Under Section 3 (Part 1) of the Act, Parliamentary appropriations may be for the purposes of recurrent services, capital works and services or repayment of debt. The timing of income recognition under AASB 1058 is determined by reference to the characteristics of the appropriation process (AASB 1058.B26). Hence, appropriations could be recognised as:

- income, immediately on receipt (under AASB 1058); or
- income when (or as) the underlying obligation is satisfied (under AASB 1058); or
- contributions by owners (for Government departments under AASB 1004).

Under AASB 1058, unspent appropriations at the end of the reporting year should be recognised as a liability rather than income, as the authority to spend the money lapses under Section 23(1) of *Public Finance and Audit Act 1983* and the unspent amount is repayable to the Consolidated Fund. This is broadly consistent with the previous practice under AASB 1004.

3.3.3 Grants from the Government departments

The principal Government departments receive appropriations from the Consolidated Fund (see section 3.3.2 above). The agencies within each department cluster then receive funding by way of grants from the respective departments or other departments to support their broad objectives.

Grants received to support the broad objectives of the agency will generally be recognised as income under AASB 1058 when the agency obtains control of the cash. This is broadly consistent with the previous practice under AASB 1004.

If an entity receives a capital grant from a Government department (see section 3.3.1), income is recognised under AASB 1058 when (or as) the underlying obligation is satisfied.

Some non-cash grants to NFP entities could be designated as a contribution by owners if they reflect a Government policy decision to increase or decrease the financial resources of the entity (i.e. the entity's equity). Where a NFP entity receives cash, this should usually be treated as revenue rather than equity. This is because NFP entities do not have an established capital structure.

3.3.4 Commonwealth grants

Commonwealth grants are generally received in to the NSW Consolidated Fund. In other instances, they are also received directly by individual departments to support specific programs.

General assistance funding

General revenue assistance arrangements (e.g. Goods and Services Tax (GST) payments from the Commonwealth to the States and Territories) allow funds to be used for the broad objectives of the public sector recipient. Such funding is unlikely to meet the 'sufficiently specific' criteria in AASB 15. Accordingly, these arrangements will generally be recognised as income under AASB 1058 when the entity obtains control of the cash. This is broadly consistent with the previous practice under AASB 1004.

Specific purpose funding

Specific purpose funding arrangements from the Commonwealth (e.g. National Partnership Specific Purpose Agreements) require funds to be used for specific objectives, outcomes, outputs and performance benchmarks or milestones related to the delivery of specific projects and improvements in service delivery or reform.

Where these arrangements are determined to be enforceable through legal or equivalent means and contain sufficiently specific obligations relating to the delivery of goods and services, revenue would be recognised in accordance with AASB 15.

If such funding does not meet the 'sufficiently specific' and 'enforceability' criteria of AASB 15, income is recognised under AASB 1058 when the recipient entity controls the cash, broadly consistent with the previous practice under AASB 1004.

3.3.5 Endowments

Endowments are assets (financial or non-financial) received by a NFP 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 include conditions on 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 cash annual scholarships.

Once a financial asset (e.g. cash received) is recognised, an entity should consider if the endowment conditions give rise to any related amount to be recognised under another accounting standard e.g. contract liability under AASB 15 or a financial liability under AASB 9 or provision under AASB 137. The excess of the financial asset over the related amount should be recognised as income (AASB 1058.B19). For instance, in the above example the requirement to provide cash scholarships creates a financial liability under AASB 9. Any excess (i.e. cash received minus financial liability) is recognised as income under AASB 1058.

Example 1 – Endowment received by a University

An alumnus transferred $2,000,000 to University A as an endowment. University A is required to provide free student accommodation every year for one student, for as long as it continues to operate as a university and preserve the real value of the principal. The income generated from investment of the principal may be applied to provide the student accommodation and any excess income is permitted to be spent on other activities.

If University A breaches the terms of the endowment, it will be required to return the transferred amount to the alumnus.

Analysis and accounting treatment

Under AASB 1058.8(a) University A will recognise cash of $2,000,000 as a financial asset on receipt.

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. This is because the promise is continuous as long as University A continues to operate.

If the period of obligation is unending, the transaction price cannot be allocated to the performance obligation. Therefore the performance obligation is not sufficiently specific to be a contract under AASB 15. The endowment is recognised as income on receipt.

Journal entry:

Initial recognition

Dr Cash	2,000,000	
Cr Income		2,000,000

Example 1A - Variation to the above example

The above facts apply, except that University A is required to provide an annual scholarship for one student's accommodation for a defined period of 30 years. The present value of this annual scholarship is estimated to be $1,850,000.

If University A breaches the terms of the endowment, it will be required to return the transferred amount to the alumnus.

Analysis and accounting treatment

Under AASB 1058, University A will recognise cash of $2,000,000 as a financial asset on receipt.

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. The distinct promise and specific time period creates a sufficiently specific obligation. The endowment is also an enforceable agreement. Hence the transaction is a contract within the scope of AASB 15.

University A will recognise $1,850,000 as a contract liability under AASB 15. The excess of $150,000 shall be recognised immediately as income.

Journal entry:

Initial recognition

Dr Cash	2,000,000	
Cr Contract liability		1,850,000
Cr Income		150,000

3.3.6 Taxes, rates and fines

Taxes, rates and fines are paid or payable to public sector entities in accordance with established laws and/or regulations. In other words, these are non-contractual income arising from statutory requirements. These compulsory transfers do not give rise to a contract liability or revenue under AASB 15, even if raised in respect of specific goods or services. This is because the recipient entity does not promise to provide goods or services in an enforceable agreement (AASB 1058.B28).

Taxes, rates and fines are recognised as income when the taxable event occurs. Taxable event has been defined as *'the event that the government, legislature or other authority has determined will be subject to taxation'* (AASB 1058 Appendix A).

	Taxable event for income recognition
Taxes and Rates	AASB 1058 does not specify the taxable event. However, references can be drawn from Appendix C to AASB 9 issued through AASB 2016-8. Para C5 of Appendix C states that an entity's right to receive a statutory receivable arises on the occurrence of a past event. Further, para C6 of Appendix C states: *A past event relating to taxes occurs as specified for each tax levied in the relevant taxation law. Examples of taxable events include:* *a) income tax – the end of the taxation period in respect of which taxable income of a taxpayer is determined* *b) goods and services tax – the purchase or sale of taxable goods and services during the taxation period* *c) customs duty – the movement of dutiable goods or services across the customs boundary* *d) property tax – the passing of the date on which the tax is levied, or, if the tax is levied on a periodic basis, the period for which the tax is levied.* Also to be noted is Example 4 of the illustrative examples under AASB 1058. This example makes a reference to Appendix C of AASB 9 and concludes that the taxable event for 'rates' occurs at the start of the annual rateable period.

If taxes or rates are received before the occurrence of the taxable event, a financial liability will be recognised under AASB 9 if they are considered refundable (AASB 1058.BC119). Once the taxable event occurs, the entity will recognise income by reversing the financial liability.

3.3.7 Peppercorn leases

Leases with significantly below market terms (i.e. peppercorn leases) are common in the NFP sector.

NSW public sector entities have been accounting for such leases by applying AASB 117 *Leases* (AASB 117). Under AASB 117, the NFP entity measures the finance lease asset and liability at the present value of the minimum lease payments, which is negligible in a peppercorn lease. Arguably this approach understates the lease asset and fails to recognise the donation component.

To address the above issues, AASB 1058 contains an amendment to AASB 16 to require a NFP lessee to measure a lease asset (i.e. 'right-of-use asset' under AASB 16) under a peppercorn lease, initially at fair value (AASB 16.AusC5.1). The lease liability will be measured at the present value of the minimum lease payments. The difference between the lease asset and liability will be recorded as income in accordance with AASB 1058.

Example – Peppercorn lease facility

Entity A, a NFP public sector lessee, enters a 30 year lease with a lessor for the use of a facility to provide community services. 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 lease terms specify that the premises must be used to provide the agreed community services, or Entity A will no longer be able to use the facility.

Analysis

Entity A determines that the facility lease is acquired for consideration significantly below fair value to further its objectives. The lease therefore has a donation component within the scope of AASB 1058. Entity A also determines it controls a leased asset within the scope of AASB 16.

Accounting Treatment

In accordance with AASB 16, Entity 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 Entity A's incremental borrowing rate of 5% per annum (as the interest rate implicit in the lease is not readily determinable). The difference of $358,463 between the fair value of leased asset and the lease liability is recognised as donation income at inception of the lease in accordance with AASB 1058.

Journal entry:

Initial recognition

Dr Right-of-use asset	360,000	
Cr Lease liability		1,537
Cr Income		358,463

3.3.8 Dual purpose transactions: providing goods/service and receiving a donation

A customer may enter into a contract with a NFP entity with a dual purpose of obtaining goods or services and to help the NFP entity achieve its objectives.

For these contracts, there is a rebuttable presumption that the transaction price relates wholly to the transfer of promised goods or services. The presumption is rebutted where the transaction price is partially refundable in the event the NFP entity does not deliver the promised goods or services (AASB 2016-8.F28 and F29 of Appendix F).

Where the presumption is not rebutted, the entity shall recognise the full transaction price as revenue under AASB 15.

Where the presumption is rebutted, the entity shall disaggregate the transaction price and account for:

- the component that relates to the transfer of promised goods or services in accordance with AASB 15
- the remainder of the transaction price as a donation component in accordance with AASB 1058

To assist the above disaggregation, the following may be indicative of the donation component:

- a non-refundable component of the transaction price
- where the entity has the status of a deductible gift recipient – the donor (i.e. the customer) can claim part of the transaction price as a tax deduction for a donation

Example – Transfer of goods with donation element

Entity B sells dinner tickets for $500. In the event that the dinner is cancelled, a ticket holder is entitled to a $300 refund. The stand-alone value of the dinner is $275.

Analysis

The entity determines the presumption that the transaction price of $500 is wholly related to the dinner is rebutted since it is partially refundable. Accordingly, it shall disaggregate the price between the dinner ($275) and the donation ($225). The refund of $300 will only be recognised as a liability if the dinner is cancelled.

Accounting treatment

Journal entries:

Initial recognition		
Dr Cash	500	
Cr Unearned income		275
Cr Donation Income		225
Dinner event		
Dr Unearned income	275	
Cr Income (charity dinners)		275
If the dinner is cancelled		
Dr Unearned income	275	
Dr Other expenses	25	
Cr Cash/liability		300

NB: The $25 may be characterised as an administrative expense to process the refund.

3.4 Volunteer services

What are Volunteer services?

Volunteer services are services received by an entity from individuals or other entities without charge or for consideration significantly less than the fair value of those services (AASB 1058.B7).

When should volunteer services be recognised?

Local governments, government departments, the general government sector and whole of government shall recognise volunteer services received as income when (AASB 1058.18):

- such services would be purchased if they had not been donated; and
- the fair value of those services can be reliably measured

This requirement has been moved from AASB 1004 to AASB 1058 virtually unchanged. In addition, under AASB 1058 all NFP entities have the option to recognise the volunteer services, if the fair value can be reliably determined. This option is available irrespective of whether or not the services would have been purchased if they had not been donated (AASB 1058.19).

Common examples of volunteer services (AASB 1058.B8-B9)

- technical assistance from other governments or international organisations
- persons convicted of offences performing community services for a NFP entity
- hospitals receiving the services of volunteers
- schools receiving voluntary services as teachers' aides or as board members
- local governments receiving the services of volunteer firefighters
- free professional accounting or legal services

Accounting treatment for volunteer services

When volunteer services are recognised, by requirement or election, they should be measured at **fair value** (AASB 1058.21) and recorded as:

- an asset - if the definition of an asset is met, otherwise an expense (AASB 1058.18)
- as income – except to the extent there are any related liabilities, equity contributions etc. (AASB 1058.22)

In many instances, the economic benefits of volunteer services will be consumed as the services are acquired, and will be expensed immediately. In other cases, the volunteer services could contribute to the development of an asset and therefore be included in the carrying amount of that asset (AASB 1058.B7).

3.5 Summary of income recognition for common NFP income streams

The table below summarises the accounting for various NFP income streams covered in the sections 3.3 and 3.4 above:

Categories of income	Accounting treatment
Capital grants - transfers to enable a NFP entity to acquire or construct a non-financial asset for its own use.	The NFP will recognise a liability for the cash or other financial assets received. Income is recognised when (or as) the obligations under the transfer are satisfied. This may differ to previous requirements under AASB 1004, where the funding would usually be recognised as income immediately upon receipt.
Parliamentary appropriations – funding to Government Departments and Special Offices, for the purposes of recurrent services, capital works and services or repayment of debt.	The timing of income recognition under AASB 1058 is determined by reference to the characteristics of the appropriation process. Unspent appropriations at the end of the reporting year should be recognised as a liability rather than income, as the authority to spend the money lapses under the *Public Finance and Audit Act 1983* and the unspent amount is repayable to the Consolidated Fund. This is broadly consistent with the previous practice under AASB 1004.
Grants from Government departments – grants to cluster agencies to support their broad objectives.	Grants received to support the broad objectives of the agency will generally be recognised as income under AASB 1058 when the agency obtains control of the cash. This is broadly consistent with the previous practice under AASB 1004. Capital grants from a Government department are recognised as income under AASB 1058 when (or as) the underlying obligation is satisfied.
Commonwealth General assistance funding - general revenue assistance arrangements allow funds to be used for the broad objectives of the public sector recipient.	These arrangements are unlikely to meet the ‘sufficiently specific’ criteria in AASB 15. Accordingly, income is recognised when the entity obtains control of the cash, broadly consistent with the previous practice under AASB 1004.
Commonwealth Specific purpose funding – these arrangements require funds to be used for specific objectives, outcomes, outputs etc.	Where these arrangements are enforceable through legal or equivalent means and contain sufficiently specific obligations relating to the delivery of goods and services, revenue would be recognised in accordance with AASB 15. If such funding does not meet the ‘sufficiently specific’ and ‘enforceability’ criteria of AASB 15, income is recognised under AASB 1058 when the recipient entity controls the cash, broadly consistent with the previous practice under AASB 1004.

Categories of income	Accounting treatment
***Endowments, bequests etc**. –* assets (financial or non-financial) received for the ongoing support of the NFP entity's objectives.	Consider whether the conditions of the transfer give rise to any related contract liability under AASB 15 or a financial liability or provision. Any excess would be recognised as income. This may differ to previous requirements under AASB 1004, where the income is usually recognised upon control of the funds.
Taxes, rates and fines **–** non-contractual income arising from statutory requirements	These are recognised as income when the taxable event occurs. Appendix C to AASB 9 provides some examples of taxable events. If taxes or rates are received before the occurrence of the taxable event, a financial liability will be recognised. Once the taxable event occurs, the entity will recognise income by reversing the financial liability.
Peppercorn leases – leases with significantly below market terms	The lease asset (i.e. right-of-use asset) is initially recognised at fair value under AASB 16. The lease liability will be measured at the present value of the minimum lease payments. The difference between the lease asset and liability will be recorded as income.
Dual purpose transactions – *providing goods/service and receiving a donation*	If the transaction price wholly relates to the transfer of promised goods or services, recognise the full transaction price as revenue under AASB 15. If the transaction price is only partially refundable in the event the promised goods or services are not delivered, disaggregate: ▪ the component that relates to the transfer of promised goods or services, in accordance with AASB 15; and ▪ the remainder of the transaction price in accordance with AASB 1058
Volunteer services - services received from individuals or other entities without charge or for consideration significantly less than the fair value of those services.	The fair value of volunteer services is recognised as income. The related amounts are recognised as: ▪ expense if the economic benefits are consumed immediately; or ▪ asset if the services contribute to the development of an asset

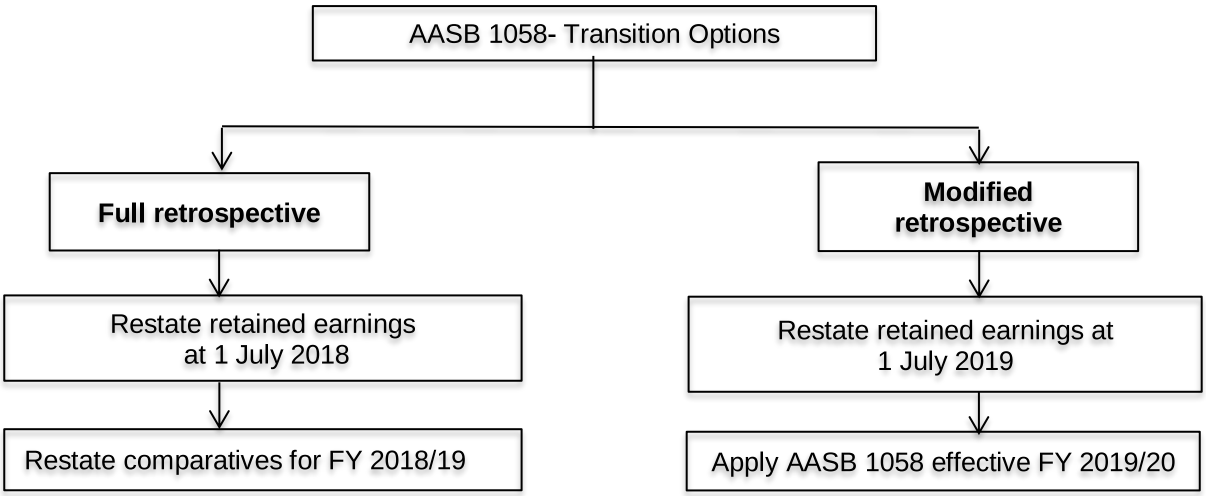
4. Transitional Requirements and Relief

This section considers the transition for income classes that fall into AASB 1058. AASB 15 has its own transition rules. The transition requirements are contained in Appendix C to AASB 1058. The following definitions are relevant for purposes of transition:

- **Date of initial application** – this is the beginning of the reporting period in which an entity first applies AASB 1058 i.e. 1 July 2019.
- **Completed contract** – a contract or transaction for which the entity has recognised all of the income in accordance with AASB 1004.

4.1 Transition options

NFP entities have two options on transition:



The full retrospective option is expected to enhance comparability, although the costs of preparing two sets of information for the year prior to implementation may outweigh the benefits.

Summary of the two transition options

'Full retrospective' - Adopt AASB 1058 retrospectively in full

- retrospectively apply for the current year and prior year comparatives as though AASB 1058 had always applied, consistent with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (para 22); and
- restate opening retained earnings/accumulated funds at the start of the comparative financial year (i.e. 1 July 2018 for 30 June year ends) for the cumulative effect of applying AASB 1058 up to that date

'Modified retrospective' - Apply AASB 1058 only at the implementation date

- adjust only the current year as though AASB 1058 had always applied;
- do not restate comparative financial information; and
- restate opening retained earnings/accumulated funds at the implementation date (i.e. 1 July 2019 for 30 June year ends), for the cumulative effect of applying AASB 1058 up to that date

Practical expedients

Under both options, it is not necessary to restate income from contracts that have been completed prior to the date AASB 1058 is first applied [AASB 1058.C5-C6]. That date is one year earlier under the full retrospective option.

That means where revenue has been recognised in full under AASB 1004, before the date AASB 1058 is applied, but where AASB 1058 would have required income to be recognised beyond that date, no adjustment is required.

Further, under full retrospective, it is not necessary to restate income for completed contracts that start and complete within a financial year. This means where income under AASB 1004 was recognised in the comparative financial year (i.e. FY 2018/19), these also do not require restatement. These concepts are explained in more detail in the following sections.

4.1.1 Full retrospective approach

Under this option, the recognition and measurement principles of AASB 1058 must be applied for:

- the year of implementation (FY 19-20)
- the comparative information (FY 18-19)
- in determining the adjustment to opening retained earnings/accumulated funds (as at 1 July 2018) for the cumulative effect of applying AASB 1058 up to that date

As a practical expedient under this approach, there is no requirement to restate:

- contracts that begin and end with the same annual reporting period; or
- completed contracts or transactions at the beginning of the earliest period presented i.e.1 July 2018. Use of this practical expedient eliminates the need to review completed contracts before 1 July 2018, on which income has been fully recognised under AASB 1004

Example – Full retrospective approach

Entity C obtained a capital grant of $1,000,000 on 1 July 2017 to construct a building that it will ultimately control. Construction is expected to be completed by 30 June 2021.

The entity recognised $1,000,000 of income upon receipt of the funds on 1 July 2017 under the previous requirements under AASB 1004. On 1 July 2019, the building is 50% complete. The entity elects to apply the full retrospective approach.

Analysis of transition implications

The date of initial application of AASB 1058 is 1 July 2019. The beginning of the earliest period presented is 1 July 2018.

The capital grant meets the definition of a completed contract since all income has been recognised on its receipt on 1 July 2017 in accordance with the previous requirements under AASB 1004. The entity would apply the practical expedient of not restating completed contracts at the beginning of the earliest period presented i.e. 1 July 2018.

Therefore the capital grant will not be reassessed under AASB 1058 on transition.

4.1.2 Modified retrospective approach

Under this option, recognition and measurement principles must be applied for:

- only the year of implementation (FY 19-20)
- in determining the adjustment to opening retained earnings/accumulated funds (as at 1 July 2019) for the cumulative effect of applying AASB 1058 up to that date

As a practical expedient under this approach, there is no requirement to restate completed contracts or transactions at the beginning of the application date i.e.1 July 2019. Use of this practical expedient eliminates the need to review completed contracts before 1 July 2019, on which income has been fully recognised under AASB 1004.

Example – Modified retrospective approach

Entity D entered into a lease of land on 1 September 2017 for a peppercorn rental payment of $10 per year for 99 years. On the date of transition to AASB 1058 (i.e. 1 July 2019), the present value of the remaining lease payments is $100.

The entity had not previously recognised a right-of-use asset for land or a lease liability, therefore the contract is not a completed contract. The fair value of the right of use of the land is $2,000,000 at 1 July 2019. The entity elects to apply the modified retrospective approach.

Analysis of transition implications

Entity D accounts for the peppercorn lease in accordance with the transition requirements of AASB 1058 by:

(a) recognising the right-of-use asset for the land as at 1 July 2019 (date of initial application) at the fair value of $2,000,000;

(b) recognising the lease liability of $100 under AASB 16; and

(c) 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 retained earnings/accumulated funds as at 1 July 2019

Journal entry:

At transition date 1 July 2019

Dr Right-of-use asset – land	2,000,000	
Cr Lease liability		100
Cr Opening retained earnings/accumulated funds		1,999,900

5. Disclosures

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. (AASB 1058.23)

AASB 1058 has enhanced disclosure requirements that are both qualitative and quantitative. Key disclosure requirements are summarised below. Some disclosures are recommended, but not mandatory, as indicated within brackets. For the detailed disclosure requirements refer to AASB 1058.

5.1 Income categories

Income shall be disaggregated into categories reflecting significant income streams. Recommended categories include:

- grants, bequests and donations of cash, other financial assets and goods;
- recognised volunteer services
- appropriations by class (AASB 1058.26)

5.2 Other general qualitative disclosures (recommended)

Qualitative information, by major class of transaction, about the nature of the entity's dependence arising from:

- volunteer services including those not recognised
- inventories held but not recognised as assets during the period (AASB 1058.27)

5.3 Non-contractual income from statutory requirements

Mandatory:

- income from statutory requirements i.e. taxes, rates, fines etc. by category (AASB 1058.28)

Recommended:

- information about associated assets and liabilities including:
    - receivables that are not financial assets (e.g. income tax receivable) and any interest income or impairment losses recognised on such receivables
    - financial liabilities relating to prepaid taxes or rates including the future periods to which they relate (AASB 1058.29)
- information about each class of taxation income that cannot be reliably measured (AASB 1058.30)

5.4 Capital grants

- opening and closing balances of financial assets received and associated liabilities arising from capital grants
- income recognised during the year from reduction of the associated liability
- information about obligations under the capital grants, including a description of when the obligations are typically satisfied
- explain (qualitatively or quantitatively) when the liability for unsatisfied obligations will be recognised as income
- methods used to recognise income and their justification
- judgments and changes in judgements related to the above (AASB 1058.31-36)

5.5 Restrictions (recommended)

- information about any externally imposed restrictions that limit or direct the purpose for which resources may be used. This can be done by:
  - explaining the judgements in determining whether funds are restricted
  - segregating assets / components of equity / comprehensive income into restricted and unrestricted amounts (AASB 1058.37)

5.6 Compliance with Parliamentary appropriations

- summary of recurrent, capital or other major categories of amounts authorised for expenditure, disclosing separately:
  - the original amounts appropriated
  - the total of any supplementary amounts appropriated and amounts authorised other than by way of appropriation (e.g. by the Treasurer, other Minister or other legislative authority)
- the expenditures in respect of each of the above items
- reasons for any material variances between the amounts appropriated and the resulting associated expenditures, and any financial consequences of unauthorised expenditure (AASB 1058.39)

5.7 Transition disclosures

Full retrospective approach

Under this approach, an entity shall disclose the amount by which each financial statement line item is affected in the immediate prior year (FY 18-19) as a result of the transition (AASB 1058.C4).

Modified retrospective approach

Under this approach, an entity shall disclose the amount by which each financial statement line item is affected in the current reporting period (FY 19-20) as a result of the transition and an explanation of the reasons for significant changes due to the transition (AASB 1058.C7).