

# The Looking Glass

Insights into financial reporting and accounting standards

Issue 7 | November 2017

## Welcome

In this edition of *The Looking Glass*, we take a high-level look at AASB 1058 *Income of Not-for-profit Entities* and outline key focus areas and practical considerations. We also identify key actions agencies need to take in preparing for the implementation of the new leases standard. Finally, we continue our summaries of the latest financial reporting developments relevant to the public sector.

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## AASB 1058 Income of Not-for-profit Entities

In July 2015 (Looking Glass issue 3) we outlined the proposals in ED 260 *Income of Not-For-Profit Entities*. In December 2016, the AASB issued AASB 1058 *Income of Not-for-Profit Entities* (**AASB 1058**) and amendments to AASB 15 *Revenue from Contracts with Customers* (**AASB 15**) to include Australian Implementation Guidance for not-for-profit (NFP) entities (**AASB 2016-8**).

These standards replace most of the income recognition requirements of NFP entities in AASB 1004 *Contributions* (**AASB 1004**). The scope of AASB 1004 is now limited mainly to Parliamentary appropriations, administrative arrangements and contributions by owners. AASB 15 and AASB 1058 will apply to NFP entities from annual periods beginning on or after 1 January 2019. AASB 15 will apply to the for-profit entities a year earlier.

In this edition, we look at the key changes in AASB 1058 and their implications, including transition options and implementation considerations. We also highlight what is now a critical assessment, determining whether a transaction falls under AASB 1058 or AASB 15.

### Key changes to the income recognition rules

Topic	Existing requirements (AASB 1004)	New rules (AASB 15 and AASB 1058)
<b>Income recognition criteria</b>	Non-reciprocal transfers generally recognised as income on receipt.  Income deferred for reciprocal transfers in some circumstances.	No distinction between 'reciprocal' and 'non-reciprocal' transactions.  The timing of income recognition is based on whether there is any performance obligation or other liability.
<b>Accounting for volunteer services</b>	Government Departments, General Government Sector and the Whole of Government are required to recognise volunteer services if:  (a) they can be reliably measured; and  (b) such services would have purchased if they had not been donated	Requirements the same for Government Departments, General Government Sector and the Whole of Government  <u>Any</u> NFP entity can elect to recognise such services if reliably measurable, even if they would not have been purchased had they not been donated.
<b>Accounting for below-market/ peppercorn finance leases</b>	Not recognised. Nominal lease payments are expensed when incurred.	Recognise a right-of-use asset at its fair value and a liability for the present value of lease payments. The difference is treated as grant income.

### Implications for income recognition

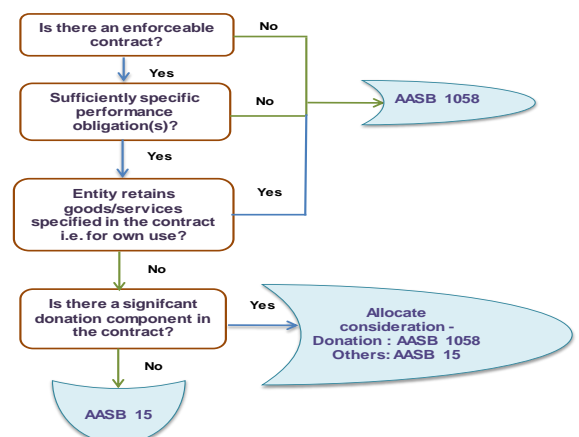
- Greater deferral of income where this reflects the substance of the transaction
- Income recognition will reflect performance obligations
- Clear accounting guidance for common NFP revenue streams, including peppercorn leases, grants and donations

### Which standard to apply?

The decision tree in **Diagram 1** illustrates how to select the appropriate standard for income.

The first step for NFP entities is to determine whether a transaction is a contract with the customer under AASB 15. To be in scope of AASB 15, there should be an 'enforceable' contract with 'sufficiently specific' performance obligations. AASB 2016-8 implementation guidance for NFPs will assist in this determination.

**Diagram 1: Decision tree on what standard to apply**



The next step is to determine if there is a significant 'donation' component in the contract i.e. where the consideration to acquire an asset is significantly less than its fair value, primarily to enable the NFP entity to further its objectives.

If AASB 15 does not apply to a transaction or a part of it, then AASB 1058 applies.

### Income recognition under AASB 1058

AASB 1058 applies when a NFP entity:

- receives volunteer services; or
- enters in to 'donation' transactions

Recognition of volunteer services has been discussed in the section above. The steps to account for 'donation' transactions are discussed in **Diagram 2**.

Refer to AASB 1058 for detailed guidance including illustrative examples that elaborate the accounting for various income streams.

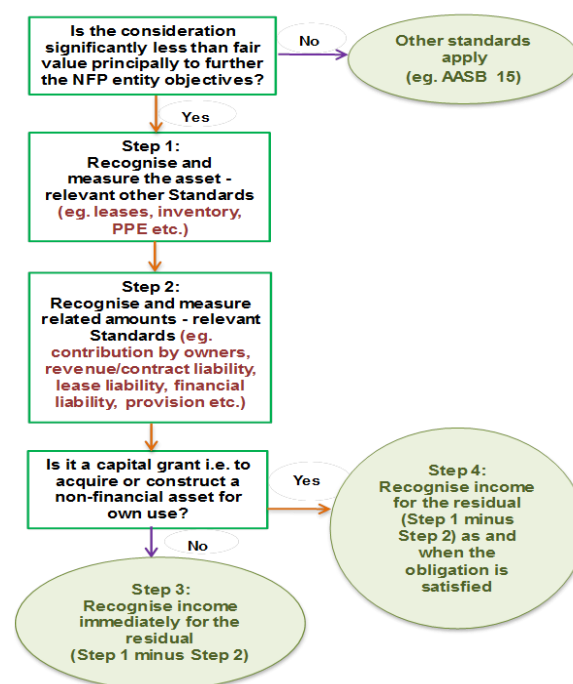
### Transitional considerations

On implementation, NFP entities can choose to either apply AASB 1058 retrospectively to each prior period or to apply the cumulative effect from the implementation date.

The following transition relief is available:

- Fair value of assets under existing peppercorn leases does not need to be assessed at the date of transition
- Transactions where income has been fully recognised under AASB 1004 need not be reassessed.

**Diagram 2: Accounting for 'Donation' transactions**



### Practical challenges

- Determining the appropriate standard could be challenging for some income streams and involves judgement
- Review significant income streams and analyse impact
- Determine suitability of systems, processes and controls for the new rules
- Notify the Accounting Policy Team and your dedicated Treasury Analyst if your agency is significantly impacted

While AASB 1058 is applicable only from FY 2019-20, it is important to start planning now for implementation. This should include analysis of the financial reporting impacts that will need to be disclosed in the financial reports.

To assist agencies in implementing AASB 15 and AASB 1058, Treasury has created an implementation timeline over the next year and a half. In the short term, Treasury will provide initial high level guidance followed by a training seminar.

### Update on AASB 16 Leases

In Issue 5 of the Looking Glass (April 2016), we took a high level view of AASB 16 *Leases* (**AASB 16**). AASB 16 is effective for annual periods beginning on or after 1 January 2019 and replaces AASB 117 *Leases*.

The Accounting Policy team issued general guidance on AASB 16 (available on the Treasury website) and delivered training earlier this year. We are now liaising with cluster lead agencies to understand the challenges for leasing portfolios, and to consult on Treasury policy setting. We are particularly interested in feedback from your early analysis that can inform Treasury policy on transitional provisions. As a next step, we recommend agencies get started on their contract reviews as soon as possible, because processes will no doubt need to be refined as we learn.

### Other Developments

The table below briefly highlights other recent accounting developments.

Financial reporting developments	Issue date	Suggested action
<b>AASB 1059 Service Concession Arrangements: Grantors</b> The AASB issued a 'fatal flaw' draft Standard with a comment period that ended in March 2017. As a result of the fatal flaw process, the AASB made changes to the final Standard that was issued in July 2017. The effective date for NSW Public Sector entities is FY2019-20.	July 2017	NSW Treasury will consider the impact of this Standard
<b>Fair Value Measurement</b> In June 2017, the AASB issued its Invitation to Comment (ITC) 36 <i>Request for Comment on IASB Request for Information on Post-implementation Review — IFRS 13 Fair Value Measurement</i> . This ITC noted that the AASB is undertaking a project to clarify the application of AASB 13 <i>Fair Value Measurement</i> ( <b>AASB 13</b> ) to not-for-profit public sector entities. This project is expected to consider implementation issues regarding obsolescence, restrictions and disclosures. As such, the AASB requested comments on relevant issues that may affect implementation of AASB 13.		The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) responded to AASB

### Questions?

Please contact [Sean Osborn](#) if you would like to discuss any of the above Standards.  
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