



Project:	Income of Not-for-Profit Entities	Meeting	AASB February 2016 (M150)
Topic:	Redeliberations – Sufficiently Specific	Agenda Item:	12.2
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Introduction and objective of this paper

- 1 At the December 2015 meeting, the Board discussed the principle articulated in Exposure Draft ED 260 *Income of Not-for-Profit Entities* that, to qualify as a performance obligation, a promise to transfer goods or services in a contract with a customer must be ‘sufficiently specific’.
- 2 At that meeting the Board:
 - (a) noted that AASB 15 *Revenue from Contracts with Customers* does not use the words ‘sufficiently specific’. Instead, AASB 15 requires that to qualify as a performance obligation, the goods or services in the entity’s promise to transfer goods or services in a contract with a customer must be ‘distinct’ (paragraph 22(a)). If a promised good or service within an enforceable agreement is not ‘distinct’ it is combined with other promised goods or services until it identifies a bundle of goods or services that is ‘distinct’ (paragraph 30). A good or service is ‘distinct’ if the customer can benefit from the good or service on its own or together with other readily available resources and the good or service is separately identifiable from other promises in the contract (paragraph 27). Each ‘distinct’ good or service (or bundle of goods or services) will be a separate performance obligation; and
 - (b) decided:
 - (i) to retain the notion that a transferor’s stipulation to use the transferred funds over a particular time period, without any other conditions, does not meet the ‘sufficiently specific’ criterion as time is not a good or service; and

- (ii) that a transfer to a not-for-profit entity that has a single purpose charter, with conditions that enable the determination of when the service has been met would meet the ‘sufficiently specific’ criterion.

3 The Board asked staff to:

- (a) explore further the link between ‘distinct’ ‘and sufficiently specific’ in the context of an explicit and/or implied promise; and
- (b) rewrite paragraph IG13 of Appendix E of ED 260, provide examples and refer to the role of an acquittal process in assessing progress towards satisfaction of the performance obligation.

4 This paper is structured as follows:

- (a) Staff recommendation (paragraph 5)
- (b) Link between ‘sufficiently specific’ and ‘distinct’ (paragraphs 6-15)
- (c) Rewritten paragraphs of Appendix E and examples (16-18)

Staff recommendation

5 The staff recommend the implementation guidance of Appendix E of ED 260 include an explanation of the relationship of the ‘distinct’ and ‘sufficiently specific’ criteria. The staff actions to the Board’s directions to rewrite paragraphs of Appendix E and examples are located at paragraphs 16-18.

Exploring the link between ‘sufficiently specific’ and ‘distinct’

6 The Basis for Conclusions to AASB 15 notes that to enable an entity to identify the performance obligations that should be accounted for separately, the International Accounting Standards Board and the Financial Accounting Standards Board (the Boards) decided that a good or service must be distinct.

7 AASB 15 [paragraph 30] states: “If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases that would result in the entity accounting for all goods or services promised in a contract as a single performance obligation.”

8 The Boards decided that the objective in identifying whether a promised good or service is distinct within the context of a contract with a customer is to determine whether an entity’s promise to transfer that good or service is separately identifiable from other promises in the contract.¹ The notion of ‘separately identifiable’ is based on that notion that “whether the risk that that an entity assumes to fulfil its obligations to transfer one of those promised goods or services to the customer is a risk that is

¹ The performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in that contract. This is because a contract with a customer may also include promises that are implied...” (AASB 15 paragraph 24)

inseparable from the risk relating to the transfer of the other promised good or services”. That is, a notion of ‘separable risks’ [paragraph BC105].

- 9 AASB 15 [paragraph 29] identifies list of factors (not exhaustive) that could assist entities in making that judgement.
- 10 ED 260 [paragraphs BC 30 and 31] notes that it is often difficult to determine which specifications attached to assets transferred to a not-for-profit entity give rise to performance obligations. Some assets transferred to not-for-profit entities have no, or minimal, specifications regarding how those assets must be used, other than that the assets are to be used for purposes consistent with the entity’s service delivery objectives or that the funds are to be expended within a specified time period.
- 11 ED 260 [paragraph IG13] states “A necessary condition for identifying a performance obligation in respect of a not-for-profit entity’s promise to transfer goods or services to a counterparty in a contract is that the promise is sufficiently specific to be able to determine when the [that] obligation is satisfied.” Judgement is required to apply the ‘sufficiently specific’ principle and ED 260 provides some conditions to consider in applying that judgement, including:
 - (a) the nature or type of the goods or services;
 - (b) the cost or value of the goods or services;
 - (c) the quantity of the goods or services; or
 - (d) the period over which goods or services must be transferred.
- 12 Staff note the link between ‘distinct’ in AASB 15 and ‘sufficiently specific’ in ED 260 is a common purpose to enable the entity to:
 - (a) identify the performance obligations for that promise; and
 - (b) determine whether or not the performance obligation(s) have been satisfied.
- 13 However, ED 260 [paragraph IG18] provided guidance when a not-for-profit entity’s promise to transfer a good or service in a contract with a customer does not meet the ‘sufficiently specific’ criterion. In this circumstance, the entity will not treat the promise as a performance obligation and the promise will be accounted for in accordance with [draft] AASB 10XX. In contrast a promise is always distinct – individually, or if not individually as a bundle in combination with other promises [AASB 15 paragraph 22].
- 14 ED 260 [paragraphs BC 30 and 31] explain that the preciseness of the specifications attached to a promise to transfer goods or services can be quite different in the for-profit and the not-for-profit sectors. Staff consider that the benefit of ‘sufficiently specific’ is that it is better able to handle this difference.

Staff recommendation

- 15 Staff recommend the implementation guidance of Appendix E of ED 260 include an explanation of the relationship of the ‘distinct’ and ‘sufficiently specific’ criteria. The

Board asked staff to rewrite paragraph IG13 and staff recommend that the explanation is located there.

Rewrite paragraph IG13 of Appendix E of ED 260, provide examples and refer to the role of an acquittal process in assessing progress towards satisfaction of the performance obligation

16 The Board asked staff to rewrite paragraph IG13 of Appendix E of ED 260. Paragraph IG13 is one of five paragraphs that provides implementation guidance on the ‘sufficiently specific’ criterion for identifying whether a performance obligation exists. Therefore when rewriting paragraph IG13, staff considered the need for any changes to any of the other four paragraphs.

17 Staff have:

(a) sought to:

- (i) clarify in the Implementation Guidance when an implied promise would meet the ‘sufficiently specific’ criterion;
- (ii) make clear:
 - (A) that a statement of intent may be sufficient to consider the promise to be ‘sufficiently specific’; and
 - (B) that the absence of a more specific condition regarding the goods or services to be provided by a not-for-profit entity that has a single purpose charter would not prevent identification of a performance obligation as long as the conditions to the transfer enabled a determination of when the good or service had been provided:

by:

- (i) amending paragraphs IG13 and IG14 by adding the punctuation and words shown with underline to read:

IG13 Paragraphs 22 and 30 of AASB 15 require that to enable an entity to identify the performance obligations that it should account for separately, each promise to transfer goods or services needs to be distinct – individually, or if not individually as a bundle combined with other promises. The preciseness of the promise to transfer goods or services can be quite different in the for-profit and the not-for-profit sectors. A necessary condition for identifying a performance obligation of a not-for-profit entity is that the promise is sufficiently specific to be able to determine when that obligation is satisfied. Judgement is necessary to assess whether a promise is sufficiently specific. Such judgement takes into account any conditions specified in the arrangement, whether explicit or implicit, regarding the promised goods or services, including conditions regarding the following aspects:

- (a) the nature or type of the goods or services;

- (b) the cost or value of the goods or services;
- (c) the quantity of the goods or services; or
- (d) the period over which goods or services must be transferred.

IG14 Whether a promise is sufficiently specific so as to qualify as a performance obligation is assessed separately for each promise and will depend on the facts and circumstances. No specific number or combination of the aspects conditions noted in paragraph IG13 need to be specified in an agreement if for the promise is to be sufficiently specific. In addition, there may be other conditions which need to be taken into account in applying the judgement above which may indicate that the promise is sufficiently specific; and

- (ii) inserting a new paragraph, IG15, to read:

IG15 Conditions specified regarding the promised goods or services may be explicit or implicit in an agreement. Paragraph 24 states that the performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in that contract. This is because a contract with a customer may also include promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer. A not-for-profit entity may make a statement of intent to spend a transfer in a particular way. While, as stated in paragraph IG7(b), a statement of intent would not of itself, be sufficient to cause the agreement to be enforceable, the statement of intent may be sufficient to meet the conditions in paragraph IG 13 to consider the promises to be 'sufficiently specific'.

- (iii) renumbering the former paragraph IG15 as IG16 and amending the new paragraph IG16 by deleting the punctuation and words shown with strikethrough and adding the punctuation and words shown with underline to read:

~~IG15~~ IG16 In relation to paragraph IG13(d), a condition that a not-for-profit entity must transfer unspecified goods or services within a particular period does not, of itself, meet the 'sufficiently specific' criterion—~~the nature or type of goods or services to be transferred by that entity over that period must also be specified.~~ For example, a ~~transfer to be used by~~ a not-for-profit entity may provide a number of services under its charter such as counselling and housing to disadvantaged youth. Where it receives a transfer to be used for any an unspecified purpose over a particular time period, such a promise in its operations would not meet the 'sufficiently specific' criterion. On the other hand, where a not-for-profit entity has a single purpose charter of providing counselling services and receives a transfer to be used over a particular time period, such a promise would meet the 'sufficiently

specific’ criterion as the nature of the services to be provided is implied under the arrangement and the stipulation to use the transferred funds over a particular time period enables a determination of when the service has been provided.

- (iv) deleting the former paragraph IG16 shown with strikethrough after incorporating the first sentence in paragraph IG18 below, and the second sentence in paragraph IG14 above:

~~IG16 As mentioned in paragraph IG4, a promise to transfer goods or services can qualify as a performance obligation without being enforceable, provided it is part of an agreement that can be enforced by another party through legal or equivalent means. In contrast, whether such promises are ‘sufficiently specific’ to qualify as performance obligations is assessed separately for each promise. Paragraphs IG15 and IG 17 note circumstances in which a condition on a transfer of assets to an entity might not be sufficiently specific to qualify as a performance obligation.~~

- (v) amending paragraph IG17 by deleting the punctuation and words shown with strikethrough and adding the punctuation and words shown with underline to read:

~~IG17 An acquittal process in relation to transferred assets (in which the entity is required provides a statement to the transferor on how it used the transferred assets) ~~might~~ may be indicative provide evidence of a promise to transfer goods or services that is ~~both part of an ‘enforceable’ arrangement and ‘sufficiently specific’~~ depending on the level of the acquittal process and other facts and circumstances. An acquittal process may also enable a determination of progress towards satisfaction of the performance obligation. ~~However, of itself, an acquittal process is not necessary to ensure a performance obligation exists. Furthermore, depending on the level of detail of acquittal (compared with the principle and aspects referred to in paragraph IG13), an acquittal process might not provide sufficient evidence that a performance obligation exists.~~~~

- (vi) amending paragraph IG18 by deleting the words shown with strikethrough and adding the word shown with underline to read:

Consequence of not satisfying the ‘enforceable arrangement’ and ‘sufficiently specific’ criteria

IG18 If a not-for-profit entity’s promise to transfer a good or service is made in an unenforceable arrangement with another party, a contract with a customer does not exist. If a not-for-profit entity’s promise to transfer a good or service in an arrangement with another party fails the ‘sufficiently specific’ criterion discussed in paragraphs IG13-IG17, that entity shall not treat the promise as a performance obligation in a contract with a customer. In either case, the entity shall account for the

~~promise transfer~~ in accordance with the requirements for donations in [draft] AASB 10XX.; and

- (b) amended the Basis for Conclusions paragraphs BC30, BC31 and BC35 by deleting the punctuation and words shown with strikethrough and adding the punctuation and words shown with underline to read:

Performance Obligations

Sufficiently specific specification

BC30 Some transfers of assets to not-for-profit entities are provided with no, or minimal, ~~specifications~~ conditions regarding how the transferred assets must be used, provided that the assets are used for purposes consistent with the entity's service-delivery objectives as set out in its constitution or enabling legislation (where applicable). For example, a charity may have the discretion to change the goods or services to be provided using donated assets, even when the donations are received in specific-purpose fundraising appeals, to enable the charity to redirect aid to those in greatest need as circumstances change. Some other transfers to not-for-profit entities are provided with a ~~specification~~ condition only that the funds are to be expended within a specified time period. For these reasons, it can be difficult to distinguish goods or services provided to meet these general specifications from any of the not-for-profit entity's other goods or services provided.

BC31 The circumstances described in paragraph BC30 are much more prevalent in the not-for-profit sector than the for-profit sector, and may raise issues regarding which ~~specifications~~ conditions attached to assets transferred to a not-for-profit entity give rise to performance obligations. The AASB decided to state a principle that, to qualify as a performance obligation, a not-for-profit entity's ~~contractual~~ promise to transfer goods or services must be 'sufficiently specific' to be able to determine when the performance obligation is satisfied.

BC35 One of the aspects to consider in assessing whether a promise is 'sufficiently specific' to qualify as a performance obligation is a specified period over which promised goods or services must be transferred (~~see~~ paragraph IG13(d) of Appendix E). In relation to that aspect, the AASB concluded that a condition that a transfer of assets to a not-for-profit entity relates to a particular time period does not, of itself, meet the 'sufficiently specific' criterion—~~the nature or type of goods or services to be transferred by that entity over that time period must also be specified~~. This is because time does not require an outflow of resources embodying economic benefits (the definition of a liability in the AASB *Framework for the Preparation and Presentation of Financial Statements* requires an outflow of resources in settlement of the obligation). Rather, the AASB considers that such a ~~stipulation~~ condition is, in substance, an indication that the transferor does not intend to make similar future transfers to the entity for a defined period of time.

Question 1 for Board members

Do Board members agree with the changes that staff have proposed to make to the implementation guidance and basis for conclusions paragraphs?

Are there any other issues that Board members would like to raise?

Modification to existing examples and an additional example to illustrate the application of AASB 15, in particular paragraphs IG13-IG17

- 18 The modifications and additions are made by deleting the punctuation and words shown with strikethrough and adding the punctuation and words shown with underline to read:

Example 3—Restrictions on the Timing of Expenditure

An Australian charity receives a government grant of \$2.4 million on 31 May 20X0, which is refundable ~~to the extent that~~ if the grant money is ~~expended~~ not spent outside in the specified period of 1 July 20X0 to 30 June 20X1. ~~The charity is entitled to retain any interest earned on the grant money.~~

The grantor can enforce its rights under the contract because it can require the grant to be refunded ~~of the grant~~ if the charity breaches the condition to provide the services over the specified period.

The charity's annual reporting period ends each 30 June. Additional assumed facts are as follows.

Example 3A

A charity's charter identifies its purpose as providing counselling and emergency accommodation. ~~The contract~~ An agreement between the grantor and the charity specifies that the grant must be ~~expended~~ spent on crisis counselling services that are to be provided for a specified number of hours per week for the entire year ending 30 June 20X1. The charity expects to honour its promise to provide ~~the~~ these counselling services. The charity's promise is sufficiently specific to enable identification of when the promise is satisfied. Therefore, the charity accounts for the grant in accordance with AASB 15.

The charity allocates the \$2.4 million grant to the performance obligation to provide counselling services, and recognises a contract liability for \$2.4 million. Because the charity has not provided any services under that arrangement as at 30 June 20X0, the charity will recognise revenue in the subsequent reporting period ~~when it~~ as and when it ~~subsequently~~ satisfies its performance obligation by providing the promised counselling services.

To illustrate how this would be accounted for, the following journal entries would apply – assume the counselling services are provided evenly over the 12-month period:

31 May 20X0	Debit	Credit
Cash	2,400,000	
Liability (Deferred Revenue?)		2,400,000
31 December 20X0 (1/2 yearly accounts if required)		
Liability (Deferred Revenue)	1,200,000	
Revenue		1,200,000
30 June 20X1		
Liability (Deferred Revenue)	1,200,000	
Revenue		1,200,000

Example 3B(i)

The ~~contract agreement~~ between the grantor and the charity does not specify that the grant must be ~~expended~~spent on any particular services. The ~~only contract agreements specifications specifies in the contract are that:~~

- (a) the grant must be used in accordance with the charity's overall objectives; and
- (b) the grant money is ~~expended~~spent between 1 July 20X0 and 30 June 20X1.

Consequently, no particular good or service is promised to the grantor ~~is not promised a particular service~~ by the charity, ~~and it is concluded that therefore~~ the charity does not have a performance obligation. Accordingly, the grant ~~contract agreement~~ is not a contract with a customer, and the grant is accounted for in accordance with [draft] AASB 10XX.

~~Because the charity is entitled to retain any interest earned on the unexpended unspent grant money, it controls the grant money from the date of receipt (on 31 May 20X0), despite not having authority to spend the money before 1 July 20X0. The charity has the discretion not to expend spend the grant money before 1 July 20X0, and therefore does not have a liability in relation to the potential breach of contract. If the charity breaches the contract agreement by expending spending money before 1 July 20X0 or by failing to expend spend the grant in full by 30 June 20X1, the breach is the an obligating event giving rise to a liability (in this instance, a penalty) at the date of the breach. For these reasons, and because the grant is not a contribution by an owner, the charity recognises the grant of \$2.4 million as income as at 31 May 20X0. If the charity breaches the contract agreement, it recognises a liability and equivalent expense for the amount due for repayment when the breach occurs.~~

To illustrate how this would be accounted for, the following journal entries would apply:

31 May 20X0	Debit	Credit
Cash	2,400,000	
Revenue		2,400,000

Example – 3B(ii) Using the same facts in 3B(i)

The charity has a single purpose charter of providing counselling services. The charity expects to honour its promise to spend the grant consistent with its charter. As the charity has a single-purpose charter of providing counselling services and has received money to be spent over a particular period, for purposes consistent with its charter, its promise is sufficiently specific to enable identification of when the promise is satisfied. Therefore, the charity accounts for the grant in accordance with AASB 15 consistent with Example 3A above.

Example 3C

~~Assume the same facts as Example 3B, except that the charity is not entitled to retain any interest earned on the unexpended grant money.~~

~~The not-for-profit entity would not obtain control of the grant money until it obtains the authority to spend the money (which occurs on 1 July 20X0). Whether the not-for-profit entity recognises income in respect of the grant as at 1 July 20X0 would depend on whether the contract gives rise to a liability other than a performance obligation (AASB 15 would not apply to the recognition of the grant income), such as a refund liability. If the not-for-profit entity incurs such a liability, it would recognise grant income when the liability is extinguished. Otherwise, the grant income of \$2 million would be recognised as at 1 July 20X0.~~

Question 2 for Board members

Do Board members agree with the modifications and the additional example as proposed by staff?

Are there any other issues that Board members would like to raise?