

AASB Standard

AASB 2022-3
May 2022

Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15

[AASB 15]



Australian Government

**Australian Accounting
Standards Board**

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Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Phone: (03) 9617 7600
E-mail: standard@aaasb.gov.au
Website: www.aasb.gov.au

Other enquiries

Phone: (03) 9617 7600
E-mail: standard@aaasb.gov.au

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AASB 2022-3 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – ILLUSTRATIVE
EXAMPLES FOR NOT-FOR-PROFIT ENTITIES ACCOMPANYING AASB 15**

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BASIS FOR CONCLUSIONS

Australian Accounting Standard AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15* is set out in paragraphs 1 – 5. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2022-3

This Standard makes amendments to the Australian illustrative examples for not-for-profit entities accompanying AASB 15 *Revenue from Contracts with Customers* (December 2014).

Main features of this Standard

Main requirements

This Standard adds Illustrative Example 7A to the examples attached to AASB 15 to clarify the accounting for upfront fees. The amendments do not change the requirements of AASB 15. The amendments are relevant only to not-for-profit entities.

Application date

This Standard applies to annual periods beginning on or after 1 July 2022, with earlier application permitted.

Accounting Standard AASB 2022-3

The Australian Accounting Standards Board makes Accounting Standard AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15* under section 334 of the *Corporations Act 2001*.

Dated 3 May 2022

Keith Kendall
Chair – AASB

Accounting Standard AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15*

Objective

- 1 This Standard amends Australian illustrative examples for not-for-profit entities accompanying AASB 15 *Revenue from Contracts with Customers* (December 2014) to illustrate how AASB 15 applies to the recognition and measurement of upfront fees. The amendments do not change the requirements of AASB 15.

Application

- 2 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 15 set out in AASB 1057 *Application of Australian Accounting Standards*.
- 3 This Standard applies to annual periods beginning on or after 1 July 2022. Earlier application of this Standard is permitted.

Amendments to Australian illustrative examples for not-for-profit entities accompanying AASB 15 *Revenue from Contracts with Customers*

- 4 Paragraph IE4A, a heading and Example 7A are added to the Australian illustrative examples for not-for-profit entities accompanying AASB 15 as follows:

Accounting for upfront fees (paragraphs F5–F27)

IE4A Example 7A illustrates application of the requirements of AASB 15 to transactions where a not-for-profit entity charges upfront fees to customers or members as part of the goods and services offered. The following are examples of upfront fees:

- (a) joining fees at clubs and membership bodies;
- (b) enrolment fees at schools; and
- (c) other establishment or set-up fees where the fee is paid at or near contract inception and the customer can renew the contract each year without paying an additional fee.

Where the goods or services to which the upfront fee relates are in the scope of AASB 15, the recognition of the upfront fee as revenue depends on whether the payment of the fee relates to a transfer of distinct goods or services to the customer that meets the definition of a performance obligation. In many cases, even though a non-refundable upfront fee relates to the activity that an entity is required to undertake to fulfil the contract, that activity may be an administrative task that does not necessarily result in the transfer of a promised good or service to the customer.

Example 7A—Upfront fee charged by an organisation

An organisation offers enrolment to prospective clients for the services it provides. Upon accepting an offer of enrolment, the prospective client must pay an upfront fee (sometimes referred to as an ‘acceptance fee’, ‘entry fee’ or ‘enrolment fee’). The enrolment form sets out the following terms and conditions relevant to the fee:

- upon payment of the fee, future service is guaranteed for the client to commence in the agreed-upon year and on an ongoing basis;
- the fee is non-refundable and non-transferable; and
- the fee is not offset against any future fees that are charged on an ongoing basis for continued access to the services.

The analysis below sets out the process followed by not-for-profit entities in determining the accounting treatment for upfront fees charged. The process does not specifically discuss any particular fee and is applied in the context of the relevant facts and circumstances of an entity’s upfront fees. Note: the term customer is used in the analysis to cover all counterparties to an agreement, for example members or students.

Analysis

Is the contract within the scope of AASB 15 Revenue from Contracts with Customers?

The entity first considers whether the agreement with the customer is within the scope of AASB 15, by referring to AASB 15 paragraphs 9–21 and F5–F19 to determine whether there is a contract with a customer:

- Is there a customer who has promised consideration in exchange for goods or services from the entity and is the promise to transfer goods or services sufficiently specific? (AASB 15, paragraphs 9, Aus9.1 and F5–F7)
- Is there a written, oral or implied agreement, such as an application form or other document? (AASB 15, paragraphs 10 and F8–F9)
- Does the agreement create enforceable rights and obligations for the parties? For example, could the customer either enforce the agreement or obtain other remedy under Australian law if the promised service was not delivered? (AASB 15, paragraphs 10 and F10–F18)

In many cases where there will be an ongoing relationship with the customer following payment of the upfront fee, such as annual fees to access a service, revenue would be recognised in accordance with AASB 15. If multiple agreements are in place, for example an agreement for a joining fee and a separate agreement for the annual membership fee, then the guidance in paragraph 17 of AASB 15 should be considered in relation to combining the agreements for accounting purposes.

What are the performance obligations in the contract, and are the activities associated with the non-refundable upfront fee one of these performance obligations?

The entity considers the guidance on:

- accounting for non-refundable fees in AASB 15, paragraphs B48–B51; and
- identifying performance obligations in AASB 15, paragraphs 22–30 and F20–F27;

to determine whether the upfront fee relates to the transfer of a good or service separate to the provision of services in the future.

In performing this analysis, the entity notes that performance obligations do not include activities that an entity must undertake to fulfil a contract (eg setting up a customer on the system, printing membership cards and similar) unless those activities transfer a good or service to the customer (AASB 15, paragraph 25). The non-refundable fee might cover internal administrative activities that enable the entity to provide future services to the customer. However, these activities do not transfer a promised good or service to the customer separate from the provision of future services and therefore do not satisfy a separate performance obligation (AASB 15, paragraph B51). If this is the case, the entity concludes that the non-refundable upfront fee – to the extent it relates to the internal administrative services – does not represent a payment for a separate performance obligation but is in substance an advance payment for future services.

In other circumstances, some or all of the upfront fee may relate to a separate performance obligation or obligations, whether satisfied at or near contract inception or otherwise.

How is the revenue for the upfront fee recognised?

Where the activity does not result in a transfer of a good or service to the customer that satisfies a separate performance obligation and the upfront fee is an advance payment for performance obligations to be satisfied in the future, the upfront fee is recognised as revenue as these future services are provided, that is, over the period in which the performance obligation is satisfied. If the entity has charged the non-refundable

fee in part as compensation for costs incurred in setting up a contract (or other administrative tasks) and those setup activities are not a separate performance obligation, they should be disregarded when measuring progress towards completion of the services (AASB 15, paragraph B51). The revenue recognition period will extend beyond the initial contractual period if the entity grants the customer the option to renew the contract and that option provides the customer with a material right (eg no requirement to pay a further joining fee on renewal) (AASB 15, paragraphs B40 and B49). Annual fees charged to access the services will be recognised as revenue over the period that the services are provided.

In the circumstances where some or all of the upfront fee relates to a separate performance obligation or obligations, the relevant portion of the upfront fee is recognised as revenue when the separate performance obligations are satisfied.

Accounting treatment

The organisation applies AASB 15 paragraphs 9–21 and F5–F19 and concludes that the agreement is within the scope of AASB 15, as:

- there is a customer – the client – who has promised consideration in exchange for future services (an ordinary activity of the organisation) to be provided to a specified recipient (AASB 15, paragraphs 6 and F6–F7); and
- a contract exists, as there is a written agreement (AASB 15, paragraphs 10 and F8–F9) that creates enforceable rights and obligations for the client to receive services in the agreed-upon years. Despite the fee being non-refundable, the client could either enforce the agreement or obtain remedy under Australian law if the organisation did not provide services in the agreed-upon years (AASB 15, paragraphs 10 and F10–F18).

The organisation considers the guidance on accounting for non-refundable fees in AASB 15 paragraphs B48–B51 and refers to paragraphs 22–30 and F20–F27 to assess whether the upfront fee relates to the transfer of a good or service separate to the provision of services in the future.

The organisation concludes that the non-refundable upfront fee does not relate to an activity that represents a separate performance obligation (AASB 15, paragraph 25), and therefore the fee is included in the consideration for the performance obligation(s) in the agreement (to provide future services). The upfront fee is treated as an advance payment for future services and is recognised as revenue over the period of the ongoing services (AASB 15, paragraphs 30 and B49).

Commencement of the legislative instrument

5 For legal purposes, this legislative instrument commences on 30 June 2022.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2022-3 Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in this Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and the bases for the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Reasons for issuing this Standard

BC2 The Board considered comments from stakeholders in the not-for-profit sector following the implementation of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*. Some stakeholders were concerned that the analysis and accounting treatment set out in the cash scholarship endowment example in Illustrative Example 3A accompanying AASB 1058 potentially was unclear and may lead to diversity in the recognition of financial liabilities.

BC3 Stakeholders also noted concerns about the diversity of practice in accounting for upfront fees received by not-for-profit entities recognised as revenue within the scope of AASB 15.

BC4 The Board noted feedback from not-for-profit private sector stakeholders that, despite having the accounting policy choice to initially measure right-of-use assets arising under concessionary leases at cost under AASB 16 *Leases* as amended by AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*, uncertainty exists whether fair value information needs to be obtained for such right-of-use assets. (For ease of reference in this Basis for Conclusions, ‘concessionary leases’ refers to leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives.)

BC5 To address the feedback received, the Board proposed amendments to the illustrative examples in AASB 15 and AASB 1058. The Board also proposed to retain the accounting policy choice to initially measure right-of-use assets arising under concessionary leases at cost on an ongoing basis, to provide certainty to not-for-profit private sector lessees.

BC6 The Board decided to proceed with some of the proposed amendments, as set out in this Standard. This Basis for Conclusions sets out the due process followed and the Board’s conclusions in determining the amendments to be included in the Standard.

Issue of ED 318 *Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases*

BC7 The Board’s proposals with respect to the amendments finalised in this Standard were exposed for public comment in January 2022 through Exposure Draft ED 318 *Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases*.

BC8 The significant issues considered by the Board in developing ED 318 are addressed in the following sections.

Income of not-for-profit entities

BC9 In developing ED 318, the Board considered comments from stakeholders that Illustrative Example 3A in AASB 1058 may lead to diversity in the recognition of financial liabilities as it does not explain adequately whether recognition of a financial liability is required for any funding received by an entity that is subsequently directed to other recipients and income recognised for the portion retained.

BC10 The Board also noted concerns about the diversity of practice in accounting for upfront fees received by not-for-profit entities. Where the not-for-profit entity recognised revenue within the scope of AASB 15 and a non-refundable upfront payment is charged to the customer, AASB 15 paragraphs 22–30, B48–B51 and F20–F27 require an entity to assess whether the upfront fees relate to the transfer of a promised good or

service. If the upfront fees do relate to a transfer of goods or services, revenue is recognised over the time the service or goods are provided rather than on receipt of the funds.

- BC11 Stakeholders raised this issue from the perspective of diversity in practice, where some entities are deferring revenue (and recognising a contract liability in accordance with AASB 15) and other entities are continuing to recognise revenue on receipt of fees which, prima facie, look very similar. Stakeholders also indicated that the principle of deferral is confusing to boards, management committees, members and other users as the amounts received are not refundable. Stakeholders requested further guidance to clarify the principle and why a contract liability is recognised when the funds will never be repaid.
- BC12 The Board considered the stakeholder comments and assessed the feedback with reference to the *AASB Not-for-Profit Entity Standard-Setting Framework*. Whilst the original conclusions in Illustrative Example 3A in AASB 1058 are appropriate, the Board proposed amending the example to clarify the conclusion further and adding an additional example to illustrate a contrasting scenario. The Board also proposed adding an additional illustrative example to AASB 15 (Example 7A) to address the issues that stakeholders raised regarding upfront fees received that are in the scope of AASB 15. The Board did not propose amendments to AASB 15 and AASB 1058 in regard to other comments received from stakeholders and decided to consider that feedback in the forthcoming post-implementation review of AASB 1058 and guidance for not-for-profit entities in AASB 15. The Board also decided to provide further educational material to assist with the application of these Standards.

Initial measurement of right-of-use assets arising under concessionary leases

- BC13 When the Board issued AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*, it intended to reassess the accounting policy choice in AASB 16 *Leases* paragraphs Aus25.1–Aus25.2 for the initial measurement of right-of-use assets arising under concessionary leases at cost or fair value when it had finalised two other projects (as noted in paragraph BC10 to AASB 2018-8, which accompanies versions of AASB 16 that incorporate those amendments). The two projects were the Not-for-Profit Private Sector Financial Reporting Framework project and the project to provide further guidance to assist not-for-profit entities in measuring the fair value of right-of-use assets.

Not-for-profit private sector lessees

- BC14 The Board noted feedback from not-for-profit private sector stakeholders that, despite having the accounting policy choice to initially measure right-of-use assets arising under concessionary leases at cost, uncertainty exists whether fair value information needs to be obtained for such right-of-use assets. This uncertainty exists because it is unclear whether the Board would be likely to require retrospective application of the initial fair value requirement if it decides in the future to remove the accounting policy choice to initially measure such right-of-use assets at cost. Stakeholders commented that if retrospective application was required, the collection of fair value information for historical concessionary leases, particularly those leases that have been in place for a significant period, would be costly and time consuming. At its November 2021 meeting, the Board discussed the initial measurement requirements for concessionary right-of-use assets with a view to providing certainty to not-for-profit private sector lessees.
- BC15 The Board acknowledged that, conceptually, requiring right-of use assets arising under concessionary leases to be initially measured at fair value is consistent with the accounting treatment applied to other assets acquired on below-market terms and conditions and better reflects the value of the right-of-use asset obtained by the lessee in its financial position and financial performance. However, the Board considered that the costs required to obtain the fair value of such right-of-use assets would outweigh the benefits for not-for-profit private sector entities. This is because:
- (a) many not-for-profit private sector entities may not have the knowledge and experience in applying the principles of AASB 13 *Fair Value Measurement* because they generally do not measure non-financial assets at fair value. The cost and effort required to understand and apply AASB 13 requirements for the one-off purpose of initially recognising a right-of-use asset under a concessionary lease might be considered unjustified;
 - (b) some stakeholders have commented that the disclosures required by AASB 16, including the requirements in AASB 16 paragraphs Aus59.1–Aus59.2, appear to provide sufficient information to users of financial statements about concessionary leases for them to understand the effects of the leases on the financial position, financial performance and cash flows of the entity, in the absence of fair value information; and
 - (c) some stakeholders have commented that recognising income resulting from initially measuring such right-of-use assets at fair value, and the subsequent amortisation of the right-of-use assets,

might not meet the information needs of users of financial statements. This might particularly be the case when a user is more interested in the entity's expenses that need to be funded rather than the value of an asset consumed during the financial period that would not need to be funded.

- BC16 Therefore, having regard to the *AASB Not-for-Profit Entity Standard-Setting Framework*, the Board decided to propose retaining the accounting policy choice in AASB 16 paragraphs Aus25.1–Aus25.2 on an ongoing basis (ie with no plan to reconsider the accounting policy choice) for not-for-profit private sector lessees to elect to initially measure a class of concessionary right-of-use assets at cost or fair value.

Not-for-profit public sector lessees

- BC17 Regarding not-for-profit public sector lessees, the Board considered that a decision about the initial measurement of right-of-use assets arising under concessionary leases should be deferred until additional guidance on how to measure the fair value of such right-of-use assets is discussed.
- BC18 The Board decided to consider outcomes of the concessionary leases part of the IPSASB's current Leases project and the Board's Exposure Draft proposing modifications to AASB 13 for not-for-profit public sector entities before reconsidering the application of fair value for concessionary leases in the not-for-profit public sector.
- BC19 The Board noted concerns raised by public sector stakeholders regarding the difficulty of measuring the fair value of historical concessionary leases. However, the Board decided not to propose grandfathering concessionary leases currently in place from a possible future fair value requirement at this time but to consider grandfathering if in the future it considers removing the accounting policy choice to initially measure right-of-use assets arising under concessionary leases at cost.

Finalisation of the ED 318 proposals

- BC20 The Board received nine formal comment letters in response to ED 318. Following the consultation period, and after considering the comments received, the Board decided to proceed with issuing this Standard, with some changes from the proposals in ED 318.

Income of not-for-profit entities

- BC21 The feedback received indicated that, whilst respondents to ED 318 did not raise concerns with the illustrated application of the recognition and measurement requirements in the proposed amendments to the illustrative examples in AASB 15, some of the respondents suggested that the proposed Illustrative Example 7A is too generic and recommended that any changes be dealt with as part of the forthcoming post-implementation review of the guidance for not-for-profit entities in AASB 15. The Board considered this feedback and noted that the example is intended to assist not-for-profit entities with limited resources in the application of AASB 15 requirements. The Board therefore decided to add the proposed Illustrative Example 7A to AASB 15, incorporating some editorial improvements suggested by the respondents.
- BC22 Most respondents to ED 318 did not support the proposed amendment to AASB 1058 Illustrative Example 3, noting their concerns with the potential impact of the illustrated scenario and accounting analysis on current practice. A majority of the respondents indicated the amendments were not desirable at this time and recommended considering any amendments as part of the forthcoming post-implementation review of AASB 1058. After considering the feedback from stakeholders, the Board decided to retain Illustrative Example 3 in AASB 1058 without any amendment and to consider any changes as part of the post-implementation review.

Initial measurement of right-of-use assets arising under concessionary leases

- BC23 Almost all respondents agreed with the Board's decision to retain the accounting policy choice in AASB 16 paragraphs Aus25.1–Aus25.2 on an ongoing basis for not-for-profit private sector lessees to elect to initially measure a class of right-of-use assets arising under concessionary leases at cost or at fair value.
- BC24 The Board noted that some feedback received disagreed with the decision to consider outcomes of the concessionary leases part of the IPSASB's current Leases project and the Board's proposals in Exposure Draft ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* before reconsidering the application of fair value for concessionary leases in the not-for-profit public sector. The Board acknowledged stakeholders' concerns regarding the difficulty of measuring the fair value of historical concessionary leases when developing the ED 318 proposals. The Board concluded that it is still

appropriate to defer a decision about the initial measurement of right-of-use assets arising under concessionary leases for not-for-profit public sector lessees until additional guidance on how to measure the fair value of such right-of-use assets is discussed.

- BC25 Accordingly, after considering the feedback to ED 318, the Board decided to proceed with the proposals in ED 318 to retain the accounting policy choice on an ongoing basis for not-for-profit private sector lessees and to defer consideration of the accounting policy choice for not-for-profit public sector lessees until the Board decides on any additional guidance for measuring the fair value of right-of-use assets under concessionary leases. This decision would be made after considering the outcomes of the concessionary leases part of the IPSASB's current Leases project and the Board's ED 320.

Effective date

- BC26 The Board confirmed that the amendments would be effective for annual periods beginning on or after 1 July 2022, with earlier application permitted, as proposed in ED 318.