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| <b>Project:</b>    | Post-Implementation Reviews  | <b>Meeting:</b>          | M201  |
| <b>Topic:</b>      | Income of Not-For-Profit Entities – Accounting for research grants   | <b>Agenda Item:</b>      | 8.3   |
|                    |  | <b>Date:</b>             | 20 February 2024                              |
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|                    |  | <b>Decision-Making:</b>  | Low   |
|                    |  | <b>Project Status:</b>   | Initial consideration of stakeholder feedback |

## Objective of this paper

- 1 The objective of this Staff Paper is for the Board to:
  - (a) **consider** the feedback received on Topic 7: Accounting for research grants included in [Invitation to Comment 50 Post-implementation Review – Income of Not-for-Profit Entities](#) (ITC 50); and
  - (b) **discuss** the feedback, staff analysis and preliminary views in relation to ITC 50 Topic 7. The Board will not be asked to make any decisions at this meeting but rather to provide feedback and suggestions for further analysis. Following the discussion staff will develop recommendations and ask the Board to decide on possible next steps<sup>1</sup> at a future meeting.

## Structure

- 2 This paper is structured as follows:
  - (a) Background (paragraphs 3 to 16)
  - (b) Analysis of respondents' feedback (paragraphs 17 to 29)
  - (c) What the AASB has done so far (paragraphs 30 to 47)
  - (d) Staff analysis and preliminary views (paragraphs 48 to 56)

## Background

- 3 Whether a research grant is accounted for in accordance with AASB 1058 *Income of Not-for-Profit Entities* or AASB 15 *Revenue from Contracts with Customers* depends on the specific terms and conditions of the grant. To determine which Standard applies, a Not-for-Profit (NFP) entity considers whether:
  - (a) it has promised to transfer goods or services (e.g. outputs from the research) to the donor or other parties on behalf of the donor; and

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1 See [Agenda Paper 7.1 Cover Memo](#) Appendix A: Post-implementation review decision-making process and Appendix B: Possible responses to PIRs (November 2023).

- (b) that promise is sufficiently specific to determine when it has satisfied its obligation to transfer those goods or services.
- 4 Both factors must be present for the NFP entity to identify performance obligations in the agreement, which would mean that the agreement is within the scope of AASB 15. If one or both factors are not present, the agreement will instead be within the scope of AASB 1058.
- 5 If a research grant is accounted for in accordance with AASB 15, revenue is recognised when (or as) the entity satisfies a performance obligation by transferring the promised good or service.
- 6 In accordance with AASB 15 paragraph 35, an entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:
- (a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see paragraphs B3–B4);
  - (b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or
  - (c) the entity's performance does not create an asset with an alternative use to the entity (AASB 15, paragraph 36) and the entity has an enforceable right to payment for performance completed to date. AASB 15 paragraph 37 notes that an entity shall consider the terms of the contract, as well as any laws that apply to the contract, when evaluating whether it has an enforceable right to payment for performance completed to date and paragraphs B9–B13 provide guidance for assessing the existence and enforceability of a right to payment and whether an entity's right to payment would entitle the entity to be paid for its performance completed to date.
- 7 To support NFP entities in applying the requirements in AASB 15 paragraph 35, a range of Illustrative Examples were added to AASB 15 in relation to research activities.<sup>2</sup>
- 8 After becoming aware of different interpretations of how AASB 15 paragraph 35(a) applies in the case of research grants and deciding that the analysis in the Illustrative Examples accompanying AASB 15 did not fully explain how the AASB intended paragraph 35(a) to be applied, the AASB issued [AASB 2019-6 Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities](#).<sup>3</sup>
- 9 In amending the Illustrative Examples, the AASB determined that paragraph 35(a) leads to three possible outcomes:
- (a) if it is clear the customer (the donor) simultaneously receives and consumes the research service, paragraph 35(a) is satisfied;
  - (b) if it is clear the customer (donor) does not simultaneously receive and consume the research service, paragraph 35(a) is not satisfied; and
  - (c) if it is uncertain whether the customer (donor) simultaneously receives and consumes the research service, it is necessary to refer to paragraph B4 to determine whether paragraph 35(a) is satisfied. Paragraph B4 states that, in those circumstances, a performance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity

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2 [AASB 2016-8 Amendment to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities](#) added to AASB 15 Illustrative Example 2-Research activities-Transfer of intellectual property, Illustrative Example 3-Research activities-Provision of licence to donor, Illustrative Example 4-Research activities-Transfer of research findings and Example 5-Research activities-No contract with a customer. Further information relating to AASB 2016-8 is included from paragraph 30.

3 This amending standard amended Illustrative Example 4A (contemporaneous publication of research data as research is carried out) and 4B (publication of research data at the end of the research) to clarify the analysis of how paragraph 35(a) applies in respect of research grants and the transfer of research findings, and added Example 4D (research data made available to donor/third parties at least annually and alternative use) to illustrate a case with periodic performance obligations.

has completed to date if that other entity were to fulfil the remaining performance obligation to the customer.

- 10 As noted in ITC 50, whilst the original conclusions in the Illustrative Examples were appropriate, the AASB was concerned that applying the original analysis to a different fact pattern could lead to an inappropriate application of paragraph 35(a). Accordingly, the AASB made changes to Illustrative Examples 4A and 4B by removing the references to re-performance and paragraph B4 in assessing the application of paragraph 35(a) and by adding an explanation in Illustrative Example 4B on why, in this example, it is clear that there is no simultaneous receipt and consumption by the donor of the benefits of the research entity's performance of the research activities.
- 11 The AASB noted that some stakeholders did not find the Illustrative Examples useful and were concerned that the fact patterns did not reflect common features of most research agreements. The AASB decided to also include an additional example, Illustrative Example 4D, to illustrate other key contract features. This example illustrates a scenario with periodic performance obligations and was intended to assist in better demonstrating how to apply the principles in AASB 15.
- 12 The AASB has also issued [AASB Staff FAQs: AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 16 Leases](#). It includes Section 2: Accounting for Research Grants, which provides further guidance on this topic.
- 13 As summarised in [Agenda Paper 3.2.1](#) (October 2023) providing an overview of the feedback from the post-implementation review (PIR) by topic, although accounting for research grants was not explicitly raised again during the development of ITC 50, anecdotal evidence and discussions with stakeholders indicate that the issue of AASB 2019-6 has not fully resolved differences in application when accounting for research grants.
- 14 ITC 50 asked the following question on accounting for research grants:

**Question for respondents**

19. Do you have any comments regarding the accounting for research grants (other than termination for convenience clauses, which are covered in Topic 6)?<sup>4</sup>

*If so, please provide your views on the requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.*

- 15 Following the issue of ITC 50, during the outreach phase of the PIR, staff actively engaged with stakeholders to seek feedback on this topic.<sup>5</sup> In addition to formal comment letters being submitted, stakeholders could also provide feedback on this topic via a survey and discussion during the various roundtable events held by staff.<sup>6</sup> Stakeholders were also invited to discuss the topic further during one-on-one meetings with staff where they requested this.
- 16 This Staff Paper is part of the 'feedback and next steps' phase of the PIR process. Appendix A and B of [Agenda Paper 7.1](#) (November 2023) sets out the framework to support the Board in considering stakeholder feedback and determining what action, if any, may be required.

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4 See [Agenda Paper 7.4 TFC clauses](#) (November 2023).

5 See [Agenda Paper 3.2.0 Cover Memo: Income of Not-for-Profit Entities](#) (October 2023) for more details.

6 Comment letters can be accessed from the [AASB website](#). Survey responses were presented to the Board at the October 2023 meeting: [Agenda Paper 3.2.5 Survey Responses](#).

## Analysis of respondents

17 Details of stakeholders who provided feedback on ITC 50 Topic 7 include:

|   | <b>Response details</b>  |
|---|--|
| Comment letter respondents:   | 4 out of 15 respondents provided comment.<br><br>See submissions 1, 7 and 12 to 13 on the <a href="#">AASB website</a> .   |
| Survey responses to the question 'Do you have any comments regarding the accounting for research grants?' | 2 respondents answered 'Yes' while 9 answered 'No.' However, neither of the respondents who answered 'Yes' provided any comments. 11 survey respondents skipped the question.<br><br>See page 25 to 26 of <a href="#">Agenda Paper 3.2.5 ITC 50 Survey responses</a> (October 2023).   |
| Virtual outreach meetings   | A number of stakeholders provided feedback during these meetings: <ul style="list-style-type: none"> <li>• Not-for-Profit Advisory Panel (1 out of 13 attendees commented);</li> <li>• Roundtable 1 (Not-for-Profit Private Sector stakeholders) (4 out of 17 attendees commented);</li> <li>• Roundtable 2 (Local Government stakeholders) (2 out of 53 attendees commented);</li> <li>• Roundtable 3 (State, Territory and Commonwealth stakeholders) (2 out of 40 attendees commented); and</li> <li>• 3 stakeholders in individual meetings.</li> </ul> <p>Agenda Paper 3.2.6 <i>ITC 50 virtual meeting notes</i> (October 2023) was provided to the Board [in supplementary folder for the Board only].</p> |

18 Comments made at the NFP Advisory Panel meeting, Roundtables 1 to 3 and individual meetings are consistent with feedback received in the comment letters. Specific comments have been included in this paper where they add or are different to the feedback received in the comment letters. However, detailed feedback is included in the supporting agenda papers.

### Feedback on Questions 19 – comments regarding the accounting for research grants

19 HoTARAC commented that other than advocating transaction neutrality between research grants and other funding arrangements, HoTARAC offers no comment on the basis that jurisdictions have limited exposure to research grants.

#### *Usefulness of AASB Staff FAQs*

20 Deloitte noted that the current research grant guidance contained in the AASB Staff FAQs has been helpful to NFP entities as it contains useful flowcharts and practical application examples of the nature of outputs around the assessment of performance obligations. Deloitte believe that if NFP entities are applying the current guidance contained in the AASB Staff FAQs correctly, this should ideally eliminate differences in application and thereby reduce any diversities in practice. Given the demonstrated usefulness of the current guidance contained in the AASB Staff FAQs, Deloitte believe the Board should consider formalising it as authoritative guidance (for example, inclusion as part of Appendix F of AASB 15 or Appendix B of AASB 1058) to help reduce diversity in practice.

#### *No additional implementation guidance or examples would be sufficient*

21 Pitcher Partners' (PP) comments on accounting for research grants are broadly in line with the comments they provided as part of their feedback on ITC 50 Topic 1: Sufficiently specific criterion and the legal interpretation

of agreements about the problems drawing the line between AASB 15 and AASB 1058.<sup>7</sup> PP do not believe that adding more examples or more guidance to explain the current requirements would be useful.

*Acceptable level of judgement required in practice with some ongoing diversity*

- 22 ACAG commented that there is a significant amount of time and effort that goes into reviewing the numerous research contracts with many of them being complex. There is also significant judgement required to determine what the goods or services being provided actually are and how those are transferred. Some jurisdictions have found that:
- (a) some of the agreements are extremely complex in determining who has what rights. In the Illustrative Examples, it is clear that one party has a greater right/benefit than the other but in practice, many rights are shared;
  - (b) a lot of the agreements were extremely specific, outlining the hypothesis the research was to prove or disprove, designating the timeframes for the delivery of stages of the research and often naming the researchers who would conduct or lead the research with continuous open access clauses. Others were less specific that referred to knowledge sharing that were recognised under AASB 1058;
  - (c) the costs of research can be incurred over a lengthy period of time albeit there may not be stages of reporting. In many instances there is some promise for a published research paper. In other instances, the research is not published which presents an issue in relation to revenue recognition; and
  - (d) there is little, if any, enforcement of any promise of a publication. Specifically, there is no enforcement of a return of funds if there is no publication. The accountability, and enforcement, is primarily focused on the promised research activities.
- 23 Notwithstanding the above, ACAG understands that for the majority of universities there is consistency in how the revenue for the main research grants (Australian Research Council (ARC) and National Health and Medical Research Council (NHMRC)) are being recognised under AASB 15. However, the recognition of the ARC and NHMRC grants under AASB 15 by four universities in one jurisdiction differed from the audit office position (which is aligned with the views in AASB Staff FAQs), which was that there were no sufficiently specific performance obligations and that revenue for these agreements should be recognised under AASB 1058.<sup>8</sup>
- 24 An NFP Advisory Panel member commented that they do not know what else can be done in this area. Support and guidance have been issued by both the accounting firms and the AASB. The diversity in practice<sup>9</sup> is attributable to a number of factors and noted the Auditor-General's across jurisdictions have not adopted a consistent approach, for example, allowing different universities to apply inconsistent approaches to the same agreement within the same jurisdiction. The complexities of the arrangements are contributing to the issues. Another member supported these views and suggested there is consistency in how preparers are interpreting the agreements. They also suggested the issues stakeholders are having relating to the sufficiently specific criterion may be contributing to the issues with research grant accounting. One State, Territory and Commonwealth roundtable stakeholder commented similarly that if the sufficiently specific and matching issues are fixed, then it will assist with the issues relating to the accounting for research grants.

*Purpose of research grants not considered to be the publication of a report*

- 25 The majority of ACAG jurisdictions continue to express concerns about the approach taken in the Illustrative Examples of the research output being the publication. In addition, not all research is undertaking experiments – for example research in the humanities. ACAG highlighted the concerns below that have been provided to

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7 See [Agenda Paper 7.2 Sufficiently specific](#) (November 2023) including recommendation of removing the AASB Staff FAQs document and locating any examples as part of guidance in the relevant standard. PP also suggested the AASB explores adopting the IFR4NPO standard, which has been included in [Agenda Paper 3.2.2 Alternative models](#) (October 2023).

8 Further information is available on the [Victorian Auditor-General's Office website](#). Also relevant, an academic from Swinburne University School of Business, Law and Entrepreneurship (see [submission 6](#)) included observations from university 2021 financial statements in response to ITC 50 Topic 1: Sufficiently specific criterion relating to ARC and NHMRC disclosures. As included in paragraph 29 of [Agenda Paper 7.2](#) (November 2023), they made the observation that universities are accounting for these agreements differently (i.e. applying AASB 15 or AASB 1058). It was their understanding that these agreements have standard paragraphs and terms.

9 At Roundtable 1 (NFP Private Sector stakeholders) an stakeholder also commented that there is diversity in this area. It was also mentioned by two stakeholders at the Roundtable 3 (State, Territory and Commonwealth government stakeholders).

the AASB staff previously when the Board was considering the 2019 amendments (paragraphs 34 – 38 below):<sup>10</sup>

- (a) when the nature and purpose of government research grants through the ARC and NHMRC are considered, the desired output is the research activities to be performed – irrespective of traditional indicators of success. Using terminology under AASB 15, the customer (the research councils) can be viewed as entering into the agreement for the grant recipient (often a university) to perform those research activities. To use slightly different terminology, the research councils are purchasing research activities.
- (b) while public publication is often expected in research grant agreements, sometimes this does not occur and is not intended to occur as knowledge gained from the research is to be translated to practice in other ways. Public publication does not determine whether the grant recipient has provided the promised research activities. That determination is achieved by the grant recipient reporting to the research councils on the use of the funds provided against the promised research activities. As long as the research is conducted in accordance with the agreement, the grant recipient is entitled to the funding, regardless of what outcome is reached, or if the grant recipient publicly publishes the findings.

26 An stakeholder at the State, Territory and Commonwealth government roundtable considered the interpretation of research is wrong in relation to the focus on research outcomes in the Illustrative Examples because this does not seem to be the reason funding is provided – they considered it to be to get people employed, etc. It is the undertaking of the research where the activities needed are very detailed in the agreements and to them this is what is designed to be done, not the research findings that are published many years later.

*Recognition of research revenue over time – paragraph 35(c)<sup>11</sup>*

- 27 ACAG commented that to recognise a research grant over time, an entity must meet the criteria in paragraphs 35(a), (b) or (c) of AASB 15. If the criteria in 35(a) and (b) are not met, the second element of paragraph (c) requires the entity to have an enforceable right to payment for performance completed to date. ACAG commented that in the public sector research grants are generally designed to cover costs without a profit margin. The majority of ACAG jurisdictions recommend the AASB provide guidance on how the requirements in paragraph B9<sup>12</sup> should be interpreted where that is the case. The issue of no profit margin also applies to other NFP and public sector arrangements.
- 28 ACAG further commented that the alternative use criteria in paragraph 35(c) is also difficult to apply. It is not clear how far an entity is expected to look to determine whether there is an alternative use, and whether the use has to be economically viable given public sector objectives may not be financially driven.

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10 Although at least one jurisdiction is in support of the AASB Staff FAQs and is of the view that ‘undertaking research activities’ are not performance obligations. This is because undertaking research activities do not themselves provide benefits, unless outcomes from the research are obtained and made available (shared) with the grantor (and third-party beneficiaries) (AASB15.F21). Research activities are inputs and processes to achieve outputs and thus are not outputs themselves.

11 See paragraph 6(c) for the requirements of AASB 15 paragraph 35(c).

12 AASB 15 paragraph B9: ‘In accordance with paragraph 37, an entity has a right to payment for performance completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance completed to date in the event that the customer or another party terminates the contract for reasons other than the entity’s failure to perform as promised. An amount that would compensate an entity for performance completed to date would be an amount that approximates the selling price of the goods or services transferred to date (for example, recovery of the costs incurred by an entity in satisfying the performance obligation plus a reasonable profit margin) rather than compensation for only the entity’s potential loss of profit if the contract were to be terminated. Compensation for a reasonable profit margin need not equal the profit margin expected if the contract was fulfilled as promised, but an entity should be entitled to compensation for either of the following amounts:

- (a) a proportion of the expected profit margin in the contract that reasonably reflects the extent of the entity’s performance under the contract before termination by the customer (or another party); or
- (b) a reasonable return on the entity’s cost of capital for similar contracts (or the entity’s typical operating margin for similar contracts) if the contract-specific margin is higher than the return the entity usually generates from similar contracts.’

## Contract cost asset recognition

- 29 One area that an ACAG jurisdiction has considered is whether the costs to fulfil research contracts for point in time contracts can be capitalised under AASB 15. This has been an area of contention within the jurisdiction due to the apparent circularity of how costs to fulfil research contracts should be treated between AASB 15 and AASB 138 *Intangible Assets*. This ACAG jurisdiction requests clarification from the AASB on which view is appropriate under the current standards. ACAG commented that as AASB 138 specifically prevents research costs from being capitalised, the issue is whether costs incurred by a university under a contract with a donor to deliver research (and within the scope of AASB 15), should be captured by AASB 15, given that future economic benefits will flow to the entity. There are currently two views:
- (a) capitalising costs is not appropriate based on the IFRS Interpretations Committee (IC) Agenda Decision (AD) [Training Costs to Fulfil a Contract](#) (March 2020). AASB 15 paragraphs 91-104<sup>13</sup> only apply when the treatment of costs associated with a contract is not specified by another Standard. Research costs are within the scope of AASB 138 paragraphs 54 to 58<sup>14</sup> and it deals specifically with research and development costs. AASB 138 requires research costs to be expensed, and development costs to be capitalised. Neither of these costs, nor any other expenditure that qualifies for treatment under another standard (such as AASB 116) should be considered for capitalisation in accordance with AASB 15 as a contract cost.
  - (b) costs can be capitalised. AASB 138 paragraph 3 excludes assets arising from customer contracts in accordance with AASB 15.<sup>15</sup> ACAG commented that this recognises the distinction between internal research projects and research activities conducted for customers under contract.

## What the AASB has done so far

### AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities

- 30 As noted in paragraph 7, AASB 2016-8 added to AASB 15 Illustrative Example 2—Research activities—Transfer of intellectual property, Illustrative Example 3—Research activities—Provision of licence to donor, Illustrative Example 4—Research activities—Transfer of research findings and Example 5—Research activities—No contract with a customer.
- 31 As noted in the Basis for Conclusions (BC) paragraphs BC66 in AASB 15 (added through AASB 2016-8), when the Board developed the requirements in AASB 1058 for transfers of financial assets that enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity, the Board initially did not limit the scope of the requirements only to recognisable assets. Upon redeliberating the issue, the Board

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13 These paragraphs cover the accounting for contract costs:

Paragraph 91: 'An entity shall recognise as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs.'

Paragraph 95: 'If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, AASB 102 *Inventories*, AASB 116 *Property, Plant and Equipment* or **AASB 138 *Intangible Assets***), an entity shall recognise an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

- (a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved);
- (b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (c) the costs are expected to be recovered.' (emphasis added)

14 AASB 138 paragraph 54: 'No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.'

15 AASB 138 paragraph 3: 'If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:

...

- (i) assets arising from contracts with customers that are recognised in accordance with AASB 15 *Revenue from Contracts with Customers*.'



decided to limit the scope of the requirements to only those non-financial assets that could be recognised under another Australian Accounting Standard once acquired or constructed.

- 32 As a consequence, the Board noted that some research grants would not necessarily be recognised as income over time as the research was performed. Accordingly, the Board decided to develop further illustrative examples to those proposed in ED 260 *Income of Not-for-Profit Entities* to assist entities apply the requirements of AASB 15 to research grants (paragraph BC67).
- 33 The Board decided to illustrate three scenarios that could apply to research grants, and the timing of revenue recognition depending on the terms and conditions of the grant, where the entity:
- (a) is required to transfer the intellectual property it develops to the grantor;
  - (b) is required to provide a licence to the grantor for the intellectual property it develops; or
  - (c) transfers benefits to the grantor that may or may not be immediately consumed (paragraph BC68).

#### *AASB 2019-6 Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities*<sup>16</sup>

- 34 As noted in paragraphs 8 to 11 above, AASB 2019-6 was issued after the AASB became aware of different interpretations of how paragraph 35(a) of AASB 15 applies in the case of research grants.
- 35 Whilst the original conclusions in the Illustrative Examples are appropriate, applying the original analysis to a different fact pattern could lead to an inappropriate application of paragraph 35(a). Accordingly, the Board made changes to Illustrative Examples 4A and 4B by removing the references to re-performance and paragraph B4 in assessing the application of paragraph 35(a) and by adding explanation in Illustrative Example 4B on why, in this example, it is clear that there is no simultaneous receipt and consumption by the donor of the benefits of the research entity's performance of the research activities (paragraph BC4).
- 36 The Board also decided to include an additional example (Illustrative Example 4D) to illustrate other key contract features. This additional example would present a greater range of examples in the Illustrative Examples and so assist in better demonstrating how to apply the principles in the Standard (paragraph BC5).
- 37 In October 2019, the Board issued a Fatal-Flaw Review version of the amendments for public comment with a four-week comment period, following extensive consultations with stakeholders. The respondents generally disagreed with the approach proposed by the Board and the submissions did not raise any new issues not already considered by the Board (paragraph BC6).
- 38 AASB 2019-6 also extended the implementation period permitting NFP entities to apply the Standards to research grants from periods beginning on or after 1 July 2019 rather than 1 January 2019 to provide the university sector with additional implementation time (paragraph BC7).

#### *Educational materials*

- 39 As noted in paragraph 12, the AASB has issued [AASB Staff FAQs: AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 16 Leases](#).<sup>17</sup> This includes section 2:

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16 Also see November 2019 AASB meeting papers: [Agenda Paper 12.0 Staff paper – Research Grants](#), [Agenda Paper 12.1 Ballot Draft of Amendments to Australian Accounting Standards – Research Grant Examples and Deferral of AASB 15 and AASB 1058 for Not-for-Profit Entities](#), [Agenda Paper 12.2 Submissions on Fatal-Flaw Review Draft of Amendments to Australian Illustrative Examples for NFP Entities accompanying AASB 15 – Nexia, AAMRI and ACAG](#) and [Agenda Paper 12.3 Further submissions on Fatal Flaw Review Draft](#).

17 This was first published on the AASB website in August 2018 and presented to the Board at the September 2018 meeting. See [Agenda Paper 14.0 Cover Memo](#) and [Agenda Paper 14.3.7 AASB Staff FAQ for Not-for-Profit Entities](#). In May 2019 the AASB staff circulated a draft FAQ on research grants to provide additional guidance on the application of AASB 15 and AASB 1058. The draft staff FAQ attracted significant attention among preparers and auditors. Based on the feedback received from stakeholders and suggestions received from some Board members, staff recommended to amend Illustrative Example 4 attached to AASB 15 to clarify how paragraph 35(a) should be applied and update the draft Staff FAQ with examples built upon existing examples in



Accounting for Research Grants and provides educational material (including flowcharts) in relation to the following questions and scenarios:

- (a) 6. If my entity performs research activities, which Standard do I apply when accounting for grants received and when do I recognise revenue?;
  - (b) 7. How does an NFP entity that receives a research grant determine whether there are sufficiently specific performance obligations under AASB 15?;
  - (c) FAQ Scenario 1A – Enforceable agreement, performance obligation not sufficiently specific, no contract with a customer;
  - (d) FAQ Scenario 1B – Enforceable agreement, performance obligation not sufficiently specific, no contract with a customer;
  - (e) FAQ Scenario 2 – Enforceable agreement, sufficiently specific performance obligation, research data and assessment only;
  - (f) 8. Is “contemporaneous publication” the only way to transfer the benefit of research activities?;
  - (g) 9. Is it necessary to refer to paragraph B4 when assessing paragraph 35(a) requirements for a research grant?; and
  - (h) 10. Why did the Board decide not to extend “capital grant accounting” under AASB 1058 to research grants?
- 40 AASB staff also held the [AASB Webinar: Accounting for Research grants](#). It includes discussion of how the requirements of AASB 15 apply to research grants as well as discussion of the research grant related Illustrative Examples in AASB 15 and the scenario examples in the AASB Staff FAQs.

#### *August 2022 AASB meeting*

- 41 At the [August 2022](#) meeting, although the research grant issue had not been explicitly raised again with staff, based on anecdotal evidence and discussions with stakeholders, staff understood that the issue of AASB 2019-6 had not resolved all divergence in practice. Therefore, staff recommended the research grant topic be added to the PIR.

#### *IFRS 15 Revenue from Contracts with Customers post-implementation review*

- 42 The IASB has issued the Request for Information (RFI) as part of the IFRS 15 PIR and it was issued by the AASB as [ITC 53 Request for Comment on IASB Request for Information on Post-implementation Review of IFRS 15 Revenue from Contracts with Customers](#). The Australian comment period closed on 8 September 2023 with all comments received by the IASB by 27 October 2023.
- 43 The RFI included section ‘4. Determining when to recognise revenue’ and included ‘Spotlight 4-Criteria for recognising revenue over time’, which included the paragraph 35 criteria for recognising revenue over time. The spotlight outlined that ‘Initial feedback suggests that many entities have largely overcome initial challenges related to determining whether to recognise revenue over time or at a point in time. However, in some cases, for example, in the software development, gaming and construction industries, some challenges remain. Some

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the initial draft and Illustrative Examples attached to AASB 15 (see [Agenda Paper 22.1 Amendment to AASB Illustrative Example 4 and Updated Draft Staff FAQs on Research Grants](#), [Agenda Paper 22.2 Draft Revised Illustrative Example 4 to AASB 15](#), [Agenda Paper 22.3 Draft Revised Staff FAQs on Research Grants](#), [Agenda Paper 22.4 Draft Revised Staff FAQs Flowchart – Chart 3](#) and [Agenda Paper 22.5 AAMRI Letter](#) (September 2019)).

As outlined in the [September 2019 Meeting Minutes](#), the Board decided to amend Illustrative Examples 4A and 4B via a Fatal-Flaw Review version of the amending Standard with a comment period of 30 days. The Board also discussed a revised version of draft staff FAQs and noted that staff would meet with the university and medical research sector stakeholders before finalising the revised Staff FAQs.

stakeholders said that assessments based on the criterion in paragraph (c) can be especially challenging, notably in relation to the enforceability of an entity’s right to payment.’

44 The IASB asked stakeholders to comment on the following questions:

- (a) Does IFRS 15 provide a clear and sufficient basis to determine when to recognise revenue? If not, why not?’

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to the criteria for recognising revenue over time (see Spotlight 4).

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities’ financial statements and the usefulness of the resulting information to users of financial statements; and

- (b) Do you have any suggestions for resolving the matters you have identified?

45 The [AASB’s response](#) to the RFI included the following that is relevant to the research grants topic:

- (a) the feedback from our stakeholders indicated that the language used in paragraph 35 of IFRS 15 is difficult to understand and, therefore, application in practice is challenging. Applying paragraph 35(c) is especially difficult because, for example, combining the criteria of “the entity’s performance does not create an alternative use to the entity” with the requirement that “the entity has an enforceable right to payment for performance completed to date” may cause issues and confusion. We suggest that the IASB considers whether paragraph 35 could be redrafted using simple and straightforward language.

46 At its January meeting the IASB considered an initial summary of feedback from stakeholders ([Agenda reference: 6A](#)) including the feedback received relating to determining when to recognise revenue (see paragraphs 41 to 52 of Agenda Paper 6A). Most of the challenges reported by stakeholders related to applying the concept of control and the criteria for over time revenue recognition in paragraph 35 and selecting the appropriate method for measuring progress. Respondents requested additional guidance, illustrative examples and/or educational materials for their industries or types of contracts.

47 The plan for the IFRS 15 PIR phase 2 ([Agenda reference: 6C](#)) outlines that the IASB staff plan to bring topic-specific papers to future meetings. Those papers will provide more detail from the comment letters compared to Agenda Paper 6A. The expected timing for the IASB to consider the feedback on determining when to recognise revenue is in March 2024 (see paragraph 16 of Agenda Paper 6C). AASB staff will continue monitoring the feedback and outcomes of the IFRS 15 PIR and assess the impact of any changes related to research grant accounting.

**Staff analysis and preliminary views**

48 This section includes staff analysis of the feedback received, preliminary views on whether any action may be required to address the feedback and what may be done to respond to it. Appendix A and B of [Agenda Paper 7.1](#) (November 2023), sets out the framework to support the Board in considering stakeholder feedback and determining what action, if any, may be required. Staff plan to formalise the recommendations on the next steps including consideration of the magnitude of the issues identified, likely timeframe of possible actions, and their expected benefits and associated costs and present them to the Board at a future meeting.

| Feedback themes/ areas            | Staff analysis and preliminary views  |
|-----------------------------------|---|
| Usefulness of AASB Staff FAQs and | 49 One stakeholder commented on the helpfulness of the AASB Staff FAQs and considered that if they are applied correctly this should reduce diversity in practice. Another stakeholder thought no additional examples or implementation guidance would be useful. It was considered by both stakeholders that the contents of the AASB Staff FAQs should be included as part of AASB 15 or AASB 1058. No other stakeholders commented on the usefulness of AASB Staff FAQs. |

| Feedback themes/ areas   | Staff analysis and preliminary views  |
|--|---|
| No additional implementation guidance or examples would be sufficient          | 50 Staff's preliminary view on next steps in Topic 1: Sufficiently specific ( <a href="#">Agenda Paper 7.2</a> (November 2023)), would assist in addressing the feedback above. The view was specifically that depending on the Board's decision whether and how to address the PIR findings, an effort to consolidate educational material and make it more accessible (e.g. via Illustrative Examples) could be considered.   |
| Acceptable level of judgement required in practice with some ongoing diversity | <p>49 Stakeholders commented on the significant amount of time, effort and judgement it takes to review often complex research grant agreements. Despite this it was considered by one stakeholder that the majority of universities are recognising similar research grant agreements consistently. However, diversity in practice may be occurring because of the complexity of agreements and differing interpretations of the requirements of AASB 15, specifically the interpretation of the sufficiently specific criterion, and the desire to match income with expenses.</p> <p>50 While little can be done by the AASB about the complexity of research grant agreements, staff's preliminary views on next steps in relation to this topic is that the suggestions on next steps included in Topic 1: Sufficiently specific (<a href="#">Agenda Paper 7.2</a> (November 2023)) and Topic 3: Alternative models (<a href="#">Agenda Paper 3.2.2</a> (October 2023)) may assist stakeholders in the interpretation of the sufficiently specific criterion and the earlier recognition of income. Staff's preliminary views on next steps specifically included:</p> <ul style="list-style-type: none"> <li>(a) there may be merit in undertaking some action to address the feedback, for example, a narrow-scope standard-setting project to review the need to clarify and provide additional guidance to assist with the judgement NFP entities are required to apply and increase consistent application of the sufficiently specific criterion. Specifically, clarifying the requirements of AASB 15 paragraphs F20 to F28 and providing further application guidance and/or clarifications; and</li> <li>(b) the AASB could explore whether the concepts of performance obligation (IPSAS 47 <i>Revenue</i>) and enforceable grant obligation (INPAG Exposure Draft 2) could be incorporated into AASB 1058. These concepts are broader than the AASB 15 performance obligation concept.</li> </ul> |
| Purpose of research grants not considered to be the publication of a report    | 51 The feedback from stakeholders in relation to the publication of research findings not being considered the output of a research grant agreement and disagreement with the approach in the Illustrative Examples was also received prior to the Board issuing AASB 2019-6 (see paragraph 37). Although this feedback was received, the Board issued AASB 2019-6 and staff's preliminary views on next steps is that the Illustrative Examples should not be revisited following this PIR given no new information has been raised and the Illustrative Examples reflect the application of the AASB 15 performance obligation concept and the promise to transfer a good/service to the customer. For contracts outside AASB 15, the possible action suggested in the paragraph 50(b) above may address this issue, at least to some extent.   |
| Recognition of research revenue over time – paragraph 35(c)                    | 52 A stakeholder requested the AASB provide guidance on how the requirements in paragraph B9 should be interpreted where research grants are designed to recover costs without a profit margin. Staff do not consider any further guidance should be provided regarding this – if an entity enters into an agreement to provide research activities (with or without a profit margin) it is anticipated that they would understand the costs they will incur in fulfilling the agreement and their recovery regardless of whether it is a for-profit or NFP entity. It is expected that the entity would know and have the right to payment for the costs incurred for the performance completed to date. <sup>18</sup> Considering this and that it was raised   |

18 AASB 15 paragraph F19: 'A contract may have 'commercial substance', for the purposes of paragraph 9(d), even if it is entered into by a not-for-profit entity for purposes that, in everyday language, would be considered 'non-commercial' (for example, contracts to provide goods or services to members of the community on a subsidised or cost-recovery basis). This is because contracts to provide goods or services without generating a commercial return may nonetheless cause a change in the risk, timing or amount of the not-for-profit entity's future cash flows. Accordingly, for the purposes of application of the Standard by not-for-profit entities, 'commercial substance' shall be read as a reference to economic substance (i.e. giving rise to substantive rights and obligations).'

| Feedback themes/ areas          | Staff analysis and preliminary views  |
|---------------------------------|---|
|                                 | <p>by one stakeholder, staff do not consider the benefits of providing the guidance would outweigh the costs.</p> <p>53 Feedback was also provided that the alternative use criteria in paragraph 35(c) is hard to apply. As noted in paragraph 45, the AASB's response to the IFRS 15 PIR RFI included that the language used in paragraph 35(c) is difficult to understand, and therefore, application in practice is challenging. The AASB suggested that the IASB consider whether paragraph 35 could be redrafted using simple and straightforward language. It is expected that the IASB will discuss the feedback on determining when to recognise revenue, which will include the feedback provided by the AASB, at the March 2024 meeting (see <a href="#">Agenda Paper 6C – Plan for PIR Phase 2</a>). Staff will monitor this discussion, including any changes to IFRS 15 that may assist stakeholders in applying paragraph 35(c). If the IASB decides not to make any changes to paragraph 35(c), staff's preliminary view on next steps is that the issue is relevant to both for-profit and not-for-profit entities, and only one NFP stakeholder raised this issue. Therefore, staff do not consider NFP entity guidance should be developed following this PIR.</p>   |
| Contract cost asset recognition | <p>54 A stakeholder requested clarification from the AASB on whether the costs to fulfil research contracts can be capitalised applying AASB 15 or whether the requirements of AASB 138 apply and therefore, not capitalised. Although not the same fact pattern, staff note the IFRS IC AD referred to in paragraph 29(a) refers to paragraph 5 of IAS 38 which outlines that the Standard 'applies to, among other things, expenditure on advertising, training, start-up, <b>research</b> and development activities' (emphasis added). Following this and based on the fact pattern described in the AD the IFRS IC concluded that the entity applies IAS 38 in accounting for the training costs incurred to fulfil the contract with the customer.</p> <p>55 The <i>AASB Due Process Framework for Setting Standards</i> paragraph 8.3.1 requires the AASB, before issuing a domestic Interpretation of an IFRS Standard, to refer the issue to the IFRS IC. Staff consider that there was not enough information provided about the specific agreement(s) to refer the information provided by the stakeholder to the IFRS IC. Further, given the request was made by only one stakeholder, staff's preliminary view on next steps is that the benefits of referring the issue to the IFRS IC, on behalf of the stakeholder, would not outweigh the costs. It would be open to the stakeholder to refer their questions to the IFRS IC.</p> <p>56 Staff note that the IFRS 15 PIR RFI included Section '9. Applying IFRS 15 with other Accounting Standards.' Staff have reviewed the summary of feedback included in <a href="#">Agenda Paper 6B – Applying IFRS 15 with other IFRS Standards</a> that the IASB considered at its January 2024 meeting. From review of this, it does not appear that other stakeholders raised questions about the interaction between IFRS 15 and IAS 38 (AASB 138). However, further discussion on the interaction of IFRS 15 with other Accounting Standards is planned to occur in April 2024 (see <a href="#">Agenda Paper 6C – Plan for PIR Phase 2</a>). Staff have reviewed the February 2024 IASB papers and note that feedback was provided by stakeholders relating to intangible assets:</p> <ul style="list-style-type: none"> <li>(a) determining whether preproduction activities such as designing or manufacturing prototypes are performance obligations, fulfilment costs or intangible assets under IAS 38 <i>Intangible Assets</i>. It was suggested that this question be addressed in the IASB's Intangibles project. IASB staff have recommended no further action is needed in relation to this (<a href="#">Agenda Paper 6A – identifying performance obligations in a contract</a>); and</li> <li>(b) difficulties in assessing control over services and intangible assets. IASB staff recommended the IASB classify as low priority the application matter related to assessing control over services and intangible assets and explore the matter in the next agenda consultation (<a href="#">Agenda Paper 6B – Principal versus agent considerations</a>).</li> </ul> |

#### Question to Board members

**Q1:** Do Board members have any questions or comments on the feedback, staff analysis or preliminary views for this topic?