Australian Government

Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M185
Topic:	**Supporting document: Detailed requirement of income pronouncements from other standard setters**	**Agenda Item:**	11.4.1
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The objective of this paper

A1 The objective of this staff paper is to provide supplementary information detailing requirements of income pronouncements from other standard setters. The following paragraphs summarise the requirements / proposals of other standard setters in relation to income of NFP entities.

Standards effective

IFRS for SMEs (and UK FRS 102 which applies the same accounting requirements as IFRS for SMEs with some minor additions)

A1. *IFRS for SMEs* Standard for revenue is largely based on the principles of IAS 11 *Construction Contracts* and IAS 18 *Revenue*, which deals with transactions and events arising from transactions including: the sale of goods, rendering of services, construction contracts in which the entity is the contractor, and the use by others of entity assets yielding interest, royalties or dividends.

A2. Note IFRS for SME is in the process of being updated and the likely changes are to align the revenue section to IFRS 15, with some simplifications. IFRS for SME principally deals with revenue from contracts with customers rather than other income which is the scope of this paper.

Sales of goods or services

A3. *Recognise* revenue from sale of goods when the entity transfers to the buyer the significant risks and rewards of ownership of the goods and the amount of revenue can be measured reliably. (Paragraph 23.10) Revenue of provision of services, including construction contracts, is recognised as the services are provided (based on stage of completion method) if both the amount of revenue and the stage of completion can be measured reliably. (Paragraphs 23.14 & .17 - .27)

Grants with performance conditions

A4. Government grants that impose specified future performance conditions are recognised as income as *the* conditions are met. (Paragraph 24.4(b))

A5. For UK FRS 102, this also includes non-monetary grants and provides guidance for entities applying the *accrual* model such as to recognising income on a systemic basis over the periods which the entity recognises the related cost for which the grant is intended to be compensated or grants relating to asset shall be recognised in income on a systemic basis over expected useful life of the asset.

Grants/donation without conditions

A6. Government grants that do not impose specified future performance conditions are recognised as income when they become receivable. (Paragraph (24.4(a))

Donated goods (tangible fixed assets) and volunteer services

A7. Not explicitly specified

Fees from membership subscriptions

A8. Revenue recognition of membership fess depends on the nature of the services provided. If the fees permit only membership, or a separate annual subscription, and all other services or products are paid for separately, the fee is recognised as revenue when no significant uncertainty as to it collectability exists. If the fee entitles the members to services or goods below non-member prices, revenue is recognised on a basis that reflects the timing, nature and value of the benefits provided. (Paragraph 23A.24)

Entrance/upfront fees

A9. Admission fees for special events are allocated to each event on the basis of the extent to which services are performed at each event and recognised as revenue when the events are held. (Paragraph 23A.22)

Interest income and dividends

A10. Recognise interest as revenue as it is earned, using the effective interest method, subject to meeting 'probable inflow' and 'reliable measurement' criteria (paragraphs 23.28 – .29). Recognise dividends as revenue when right to receive payment is established, subject to meeting 'probable inflow' and 'reliable measurement' criteria. (Paragraphs 23.28 – .29)

Licence fees/Royalties

A11. Licence fees and royalties are recognised as revenue on an accrual basis in accordance with the substance of the agreement, subject to meeting 'probable inflow' and 'reliable measurement' criteria. (Paragraphs 23.28 – .29; 23A.34)

Sales of items of non-financial assets

A12. Gains on sales of items of property, plant and equipment are recognised as income when the items are disposed of. This occurs when the criteria for recognising revenue from sales of goods in Section 23 are met. Gains are not classified as revenue. (Paragraph 17.28)

Insurance claim

A13. When some or all of the amount required to settle a provision may be reimbursed by another party (for example, through an insurance claim), the entity shall recognise the reimbursement as a separate asset only when it is virtually certain that the entity will receive the reimbursement on settlement of the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision. (Paragraph 21.9).

New* Zealand *PBE Tier 3

Sales of goods or services

A14. Revenue is recognised from sale of goods when the sale occurs (this is usually when the goods are received by the purchaser) while revenue is recognised from the provision of services as the services are provided (based on stage of completion method).

Grants with performance conditions

A15. Grants and donations with “use or return” conditions attached are recognised as revenue as the conditions are met.[1]

Grants/donation without conditions

A16. Grants and donations without “use or return” conditions attached (including capital grants) are recognised as revenue when the cash is received.

Donated goods (tangible fixed assets) and volunteer services

A17. Only significant donated assets with useful lives of 12 months or more is recognised as revenue on receipt at readily obtainable values such as rateable value or government value where it is practicable to obtain such current value. Where such values are not readily obtainable, such as for intangible assets, highly specialised assets and heritage assets, entities are required to provide note disclosure of a description of the assets instead. Donated goods and services other than donated assets are not recognised.

Fees from membership subscriptions

A18. Fees and subscriptions other than those to purchase goods or services are recognised as revenue when the cash is received.

Entrance/upfront fees

A19. Recognise entrance fees and one-off fees as revenue when the event takes place.

Interest income and dividends

A20. Recognise interest as revenue as it is earned and recognise dividends as revenue when receivable (e.g., when declared).

Licence fees/Royalties

A21. Licence fees and royalties are recognised as revenue as they are earned.

Sales of items of non-financial assets

A22. Gains on sales of assets are recognised as revenue when control of the asset transfers to the purchaser.

Insurance claim

A23. Same as IFRS for SMEs.

UK Charities SORP

Sales of goods or services

A24. Entitlement to the income from sale of goods arises when the ‘significant risks and rewards’ of ownership are transferred to the buyer. Usually, entitlement to income occurs with the supply of

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goods to the buyer, and the costs of goods sold can both be measured reliably, and receipt of income is probable (5.41).

A25. Entitlement to the income arises as the charity obtains the right to consideration in exchange for its performance under the contract. Income from supply of services is recognised with the delivery of the contracted service provided that: the stage of completion, the costs incurred in delivering the service and the costs to complete the requirements of the contract can be measured reliably. If the costs incurred and the cost to complete cannot be measured reliably then the receipt should be treated as an advance payment and deferred. Income is recognised at the fair value of the consideration received or receivable (after adjustments). If credit terms are offered on exchange transactions (contract income), the amount receivable should be discounted by the time value of money (except if normal credit terms, payment is required within 12 months or immaterial transaction) at a rate of interest that reflects the financing transactions involved. (5.41-5.47)

Grants with performance conditions

A26. Grants and donations with conditions (either performance-related conditions, conditions relating to contingent events—e.g., obtaining matching funding—or explicit or implicit conditions relating to the period over which contributed resources must be used) attached are recognised as income as the conditions are met. (5.16 – 5.25).

Grants/donation without conditions

A27. Grants and donations without conditions attached are recognised as income when the entity becomes entitled to the resources. Grants and donations without conditions should not be deferred even if the resources are received in advance of the expenditure on the activity funded by them. For example, where a grant or donation is given specifically to provide a fixed asset or a fixed asset is donated, the charity is normally entitled to that income when it is receivable. (5.26 – 5.28).

A28. Income from non-exchange transactions (gifts) are donations of money, goods, facilities or services where the grant-maker awards a grant without receiving equal value in exchange. While no specific guidance is provided to recognise non-exchange transactions besides donations to acquire tangible fixed assets or legacies, the general rules of income recognition would apply to recognising non-exchange transactions (5.8).

A29. Entitlement to legacies arises when the charity has sufficient evidence that a gift has been left to them and the executor is satisfied that the property in question will not be required to satisfy claims in the estate, receipt is probable (i.e., there has been grant of probate, executors have established sufficient assets int eh estate and conditions met), and the ability to estimate with sufficient accuracy the amount receivable. Charities which receive a significant number of legacies in a reporting period and have detailed historical information on the settlement of legacies may apply an estimation technique in measuring the value of legacies that are recognised to allow for potential variation in settlement values and the risk of a will being contested. (5.29-5.33)

Donated goods (tangible fixed assets) and volunteer services

A30. Donated goods, facilities, and services (including those consumed immediately (5.38)) must be recognised as income when the following criteria are met:

- Entitlement – control over the donated benefits has passed to the charity and any performance-related conditions attached to the donation have been fully met.
- Probable – receipt is more likely than not.
- Measurement – the fair value or value to the charity of the donated item can be measured reliably. (6.6)

A31. Where there is no direct evidence of fair value for an equivalent item, a value may be the cost of the item to the donor or in the case of goods that are expected to be sold, the estimated resale value after deducting the cost to sell the goods. (6.9).

A32. Donated vehicles, plant and furniture are recognised as tangible fixed asset when their fair value exceeds the threshold for capitalisation set by the charity's accounting policy. If donated services are used in the construction of a tangible fixed asset, the value of service donated will only form part of the construction of the asset when the value to the charity of the donated services can be measured reliably. (6.20-6.22)

A33. The cost of any stock of goods donated for distribution to beneficiaries is deemed to be the fair value of those gifts at the time of their receipt. If the goods held are to be distributed freely or for a nominal consideration, the carrying amount should be subsequently adjusted for any loss of service potential and replacement cost. Where replacement cost is the economic cost incurred if the charity was to replace the service potential of the donated goods at its own expense in the most economic manner. (6.12)

A34. If a charity is given facilities and services for its own use which it would otherwise have purchased, these must be included in the charity's accounts when received, provided the value of the gift can be measured reliably. (6.13)

A35. Measuring donated services using fair value would not be practical as such services cannot be resold, and the use of fair value may result in an overstatement of the value of the donation to the charity. Donated facilities and services are therefore measured on the basis of the value of the gift to the charity. Value to the charity is the amount that the charity would pay in the open market for an alternative item that would provide a benefit to the charity equivalent to the donated item. Value to the charity may be lower than, but cannot exceed, the price the charity would pay in the open market for the item. (6.14-6.15)

A36. Charities often rely on the contribution of unpaid general volunteers in carrying out their activities. However, placing a monetary value on their contribution presents significant difficulties. For example, charities might not employ additional staff were volunteers not available, or volunteers might complement the work of paid staff rather than replace them. These factors, together with the lack of a market comparator price for general volunteers, make it impractical for their contribution to be measured reliably for accounting purposes. Given the absence of a reliable measurement basis, the contribution of general volunteers must not be included as income in charity accounts. (6.18)

Fees from membership subscriptions

A37. Membership subscriptions received by a charity may be in the nature of a gift, or the member may buy a right to services or other benefits. Where the substance of the subscription is that of a gift, the income and any associated Gift Aid or other tax refund should be recognised on the same basis as a donation. If the subscription purchases the right to services or benefits, the incoming resource should be recognised as income from charitable activities. (5.48)

Entrance/upfront fees

A38. Not explicitly specified.

Interest income and dividends

A39. The recognition of interest income and dividends is the same as the IFRS for SMEs Standards. However, interest on concessionary loans and interest receivable on bank deposit and from government gilts will not require adjustment, as the rate receivable normally reflects the effective interest rate applicable to the asset. (5.49-50)

Licence fees/Royalties

A40. Royalties are recognised as income when receivable. Royalties and income from the exploitation of intellectual property rights are recognised when receivable in accordance with the substance of the relevant agreement. (5.51)

Sales of items of non-financial assets

A41. Not explicitly stated but a gain on the disposal of a tangible fixed asset held for the charity's own use are recognised as 'other income' (4.41)

Insurance claim

A42. Facilities such as office accommodation or services supplied by an individual or entity as part of their trade or profession can usually be reasonably quantified and must be included in a charity's accounts. The contribution of general volunteers' services is not recognised as income; however, a description of the role they play, and the nature of their contribution must be disclosed in a note. (6.17 – 6.19)

Singapore CAS

Sales of goods or services

A43. Income earned by providing goods or services in return for a fee is recognised to the extent that the charity has provided the goods and/or services. (paragraph 59).

A44. Revenue from long-term/construction contracts and the associated contract cost is recognised by reference to the stage of completion of the contact activity (based on percentage of completion method) if both the revenue and the stage of completion can be measured reliably (paragraphs 260 & 268). Cost relating to future activity on the contract is recognise as prepayments if it is probable the cost will be recovered, otherwise it shall recognise as expenditure immediately if recovery is not probable.

Grants with performance conditions

A45. Grant funding that contains condition (either linked to the performance of a particular level of service or units of output delivered) are recognised as income upon the delivery of specified level of service and to the extent of the provision of the service or goods. (paragraphs 60-61)

Grants/donation without conditions

A46. Recognition of a grant or donation without pre-conditions should not be deferred even if the income is received in advance of the performance of the activity funded by the grant or donation and is recognised when the charity becomes entitled to the income. (paragraph 71)

Donated goods (tangible fixed assets) and volunteer services

A47. Where a grant or donation is given specifically to provide funding for an item of property, plant and equipment or an item of property, plant or equipment is donated (a gift in kind), the charity will normally have entitlement to the income when they are receivable and is measured at either a sufficiently reliable estimate of the amount that the charity estimates it would pay in the open market for an equivalent item at the date of the gift or donation, provided that the amount can e estimated with sufficient reliability. Where the amount cannot be estimated with sufficient reliability, this fact shall be disclosed in the financial statements. (paragraph 185).

A48. Recognition of volunteer services is not explicitly stated but donations in kind are recorded as income at the price the charity estimate that they would have to pay in the open market for an equivalent item. In addition, a charity is required to disclose in the notes the accounting policy the basis of recognising donated services, methods of valuation and the circumstances under which such items would not be included in net income or expenditure.

Fees from membership subscriptions

A49. Where subscriptions are that of a gift, income is recognised on the same basis as a donation. If the subscription purchases the right to service or benefits, the income should be recognised as the service or benefit is provided. Where the right to receive benefits is evenly spread over the period of membership, income can be recognised using an appropriate estimation technique such as on a straight-line basis over the period of time covered by the subscription

Entrance/upfront fees

A50. One-off activities could be regarding as trading, and therefore recognised as per revenue from proving goods or services.

Interest income and dividends

A51. Recognition of interest income is based on the effective interest method to calculate the interest income over the relevant period. Recognition of dividends is not explicitly stated but the general principle is income is recognised when there is control over the rights or other access to resource, and when it is probably and can be measured with sufficient reliability.

Licence fees/Royalties

A52. Not explicitly specified.

Sales of items of non-financial assets

A53. Gains on the disposal of an asset shall be accounted for in net income in the period in which the disposal occurs and presented as Other income in the statement of activities. If the asset is donated and that donation has not been reflected as an income upon receipt, the charity will have to account for the net proceeds from the sale of the asset as income.

Insurance claim

A54. Same as IFRS for SMEs Standard.

HK SME-FRF and SME-FRS

Sales of goods or services

A55. Recognise revenue from sale of goods when the entity transfers to the buyer the significant risks and rewards of ownership of the goods and the amount of revenue can be measured reliably. (paragraph 11.2).

A56. Contract revenue (construction contracts) are recognised when the outcome of construction contract can be estimated reliably, contract revenue (and contract cost) associated with the construction contract should be recognise as revenue (and expenses) respectively by reference to the stage of completion of the contract activity. HK SME FRF and SME-FRS provides guidance on when outcome of a construction contact can be measured reliably for a fixed price contract and cost-plus contract. Where outcome of a construction cannot be measured reliably, revenue is recognised to the extent of contract costs incurred (and as an expensed in the period it is occurred) that is probably and recoverable. (paragraph 11.3)

Grants with performance conditions

A57. Government grants with conditions are recognised as income when there is reasonably assurance that the entity will comply with the conditions attached to them and the grant will be received. Income is recognised over the period necessary to match them with the related costs they are intended to compensate, on a systemic basis and not be credited directly to equity.

Grants/donation without conditions

A58. Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity are recognised as income of the period in which it become receivable. (paragraph 12.4). Government assistance that cannot reasonably have a value placed on them (e.g., free technical or marketing advice or provision of guarantees) and transactions that cannot be distinguished from the normal trading transaction may require disclosure in notes including the nature, and duration of assistance. Loans at nil or low interest rates are a form of government assistance, but the benefit is not quantified by the imputation of interest.

<u>Donated goods (tangible fixed assets) and volunteer services</u>

A59. Not explicitly specified.

<u>Fees from membership subscriptions</u>

A60. Revenue recognition of membership fee depends on the nature of the services provided. If the fee permits only membership, or a separate annual subscription, and all other services or products are paid for separately, the fee is recognised as revenue when no significant uncertainty as to it collectability exists. If the fee entitles the members to services or goods below non-member prices, revenue is recognised on a basis that reflects the timing, nature and value of the benefits provided (paragraph B16)

<u>Entrance/upfront fees</u>

A61. Revenue from artistic performance, banquets and other special events are recognised when the event takes place. When a subscription to a number of events is sold, the fee is allocated to each even on the basis that reflects the extent to which services are performance at each event. (paragraph B14)

<u>Interest income and dividends</u>

A62. Recognise interest as revenue on a time proportion basis, subject to meeting 'probably inflow' and 'reliable measurement' criteria and dividends are recognised as revenue when the shareholder's right to receive payment is established, subject to meeting 'probably inflow' and 'reliable measurement' criteria (paragraph 11.9)

<u>Licence fees/Royalties</u>

A63. Licence fees and royalties are recognised on an accrual basis in accordance with the substance of the agreement, subject to meeting 'probable inflow' and 'reliable measurement' criteria (paragraphs 11.9, B19)

<u>Sales of items of non-financial assets</u>

A64. Gains on sales of an item of property, plant and equipment should be recognised on disposal or when the asset s permanently withdrawn from its use and no future economic benefit are expected from its disposal. (paragraph 3.18)

<u>Insurance claim</u>

A65. Same as IFRS for SMEs Standard.

Canada ASNFPO

<u>Sales of goods or services</u>

A66. Revenue from sales and service transactions is recognised when the requirements as to the performance are achieved, i.e., when the seller transfer to the buyer the significant risks and rewards of ownership, and reasonable assurance exist regarding the measurement of the consideration that will be derived from the sale of goods, and the extent to which goods may be returned. Performance is achieved when there's persuasive evidence of an arrangement exist, delivery has occurred, or service rendered and the seller's price to the buyer is fixed or determinable. An entity would take into account factors such as cancellable sales arrangements or right of return arrangements when considering the price to buyer (Sections 3400.05 & 07)

A67. Recognise revenue from providing services as the performance of services are achieved (based on percentage of completion method or the completed contract method), provided that reasonable assurance exists regarding measurement of the consideration that will be derived. (Section 3400.06). Performance is achieved as per for revenue from sales of goods or services above. (Section 3400.06-07)

Grants with performance conditions

A68. An organisation should recognise contributions in accordance with either the deferral method or the restricted fund method measured at fair value at the date of contribution if fair value can be reasonably estimated.

A69. Under the deferral method, contributions for which externally imposed restrictions remain unfulfilled are accumulated as deferred contributions in the statement of financial position. Restricted contributions are recognised in the same period the expenses are recognised. Restricted contributions for the purchase of capital assets that will be amortised should be deferred and recognised as revenue on the same basis as the amortisation expense related to the acquired capital asset. Where that capital asset will not be amortised, revenue is recognised as direct increase in net asset. (Section 4410.33-.34)

A70. The restricted fund method is a specialised use of fund accounting in which the organization presents total general funds and at least one restricted fund. Contributions for which externally imposed restrictions remain unfulfilled, as well as endowment contributions, are presented in the appropriate fund balance. For restricted contributions with no appropriate fund, revenue is recognised in accordance with the deferral method.

Grants/donation without conditions

A71. Unrestricted contributions should be recognised as revenue in the current period (paragraph 4410.46). Under the restricted fund method (fund accounting), unrestricted funds are recognised as revenue in the general fund (Section 4410.68).

Donated goods (tangible fixed assets) and volunteer services

A72. A contribution of assets other than cash would be measured at fair value. Fair value would be estimated using market or appraisal values. For contributed materials and services that are normally purchased, fair value would be determined in relation to the purchase of similar materials and services. (Section 4433.07). A tangible capital asset purchased by a not-for-profit organisation at substantially below fair value would also be recognised at its fair value with the difference between the consideration paid for the tangible capital asset and fair value reported as a contribution. (Section 4433.11).

A73. For small organisations where the average annual revenue for the current and proceeding period of the entity and any entities it controls is less than $500,000 is permitted to provide disclosure of the policy followed in accounting for tangible assets, information including description about major categories of tangible capital assets not recorded in the statement of financial position and if tangible capital assets are expenses, the amount expensed. (Section 4433.26).

A74. An organisation may choose to recognise contributions of services but should do so only when a fair value can be reasonably estimated and when the materials and services are used in the normal course of the organisation's operations and would otherwise have been purchased. (Section 4410.16).

Fees from membership subscriptions

A75. An entity would decide whether its membership fees are contributions or fees for services and account for them accordingly on a consistent basis. (Section 4410.05). Net investment income that is not externally restricted are recognised based on the deferral method, otherwise added to the to the principal amount of resources held for endowment.

Entrance/upfront fees

A76. Supply or service transactions involving the charge of upfront non-refundable fees are earned as the products and/or services are delivered. Where the supply or service transactions include an upfront fee with periodic payment for future services (e.g., gym membership), the upfront fee may be wholly or partly an advance payment for future products/services and ongoing rights/services provided are essential to the customer receiving the expected benefits and are assessed as an integrated package, and should be deferred and recognised systemically over the periods that the fees are earned. (Section 3400.A45)

Interest income and dividends

A77. Depending on whether this is derived from resources held for endowment. Net investment income (both interest and dividends) earned on resources held for endowment is in effect a contribution and would be reported based on the nature of any related externally imposed restrictions, i.e., either the restricted fund method or deferral method.

Licence fees/Royalties

A78. Not explicitly specified however guidance provided on upfront fees (entrance fees) provide illustrative examples to licence transactions. (Section 3400.A45)

Sales of items of non-financial assets

A79. Any unamortized deferred contributions related to the tangible capital asset disposed of would be recognised as revenue in the period of the disposal, provided that all restrictions have been complied with. (Section 4433.21)

Insurance claim

A80. The amount of a contingent loss shall be accrued in the financial statements by a charge to income when it is likely that a future event will confirm that an asset had been impaired or a liability incurred at the date of the financial statement and the amount of the loss can be reasonably estimated. (Section 3290.12)

US ASC NFP 958

Sales of goods or services

A81. Same five step approach to recognising revenue from transferring goods or services to customers as AASB 15. Recognition of revenue from providing services and construction contractions takes the same approach as AASB 15. Approach is similar to that in IFRS for SMEs and New Zealand Tier 3 requirements, albeit with much more detailed guidance.

Grants with performance conditions

A82. Contributions is recognised as revenue (if part of NFPs ongoing major or central activities) or gains (peripheral or incidental to the NFP) in the period received, or a right that is expected that promised assets will be transferred in the future, as assets, decrease of liabilities, or expenses depending on the form of the benefit received, measured at fair values. Donor imposed conditions are defined as one nor more barriers that must be overcome before a recipient is entitled to the asset transferred or promised, and a right of return to the contributor for assets transferred or a right of resale of the promisor form its obligation to transfer assets. Donor imposed conditions must be determinable from the agreement. (958 6xx 25-5A-5B). Guidance is provided for indicators to determine whether an agreement contains a barrier. (Section 958 25-5D).

Grants/donation without conditions

A83. Contributions without donor-imposed conditions are recognised as revenue or gains in the period received. (958 605.25-2)

Donated goods (tangible fixed assets) and volunteer services

A84. Contributed tangible property with future economic benefit or service potential are recognised at fair value. Items revived from a resource provider and used for fundraising purposes are recognised as revenue or gains measured at fair value.

A85. Gift of clothing or furniture that has no value (or uncertainty of value) are not recognised unless they are used by the NPF internally or for program purpose, or to be sold by the NFP entity. Items saved for potential future use in scientific or education research and has no alternative use (e.g., flora, fauna) is not recognised. Contributions of works of art, historical treasure or similar assets that are protected or preserved, and held for public exhibition or research to further public service rather than financial gain, and subject to the entity's policy that use of proceeds from the sale of such items will be used to acquire new collections is permitted to either capitalise all collection items, or only after a stated date or no capitalisation. (958 605.25-4).

A86. Contribution of services is recognised if services received create or enhance nonfinancial assets, or are specialised skills provided by individuals possessing those skills that would typically need to be purchased if not provided or donated. This may include accountants, architects, carpenters and other professionals. (958 605.25-16). Services received from personnel of an affiliate the benefits the NFP entity is recognised as revenue at the cost recognised by the affiliate in providing those services. However, where it will significantly over/understate the value of the services received, an entity can elect to value the cost recognised by the affiliate for the personnel or at fair value of the service.

Fees from membership subscriptions

A87. Not explicitly specified.

Entrance/upfront fees

A88. Not explicitly specified. If entrance fees and one-off fees are consideration in contracts with customers, revenue is recognised as the promise to perform under the contract is satisfied as per AASB 15.

Interest income and dividends

A89. Interest income and expenses are generally recognised using the effective interest rate method (958.310-20-34-1). Dividend income is recognised in profit or loss when the shareholder's right to receive payment is established, which is generally established on the date the issuer has an obligation to pay dividend.

Licence fees/Royalties

A90. Same as AASB 15

Sales of items of non-financial assets

A91. Gains on sales of items of property, plant and equipment are recognised as income when the items are disposed of. This occurs when control of the items passes to the buyer, applying the criteria for the transfer of control set out in Topic 606 (i.e., equivalent to AASB 15)

A92. A gain on sales of contribution of a previously recognised 'collection' is recognised on disposal between the fair value of item from its carrying amount. Gains are not recognised for items of collections that were not previously recognised in the financial statements. (958 360.40-2,40-3)

Insurance claim

A93. A reimbursement right is recognised when recovery is likely to occur to the extent of any provision recognised; an excess gain contingency is recognised only when it is realised. The reimbursement is recognised as a separate asset.

Proposals – at ED or discussion paper phase

IFR4NPO Consultation Paper – Measurement and financial reporting challenges of non-financial assets held for social benefit

B1 In January 2021, The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the IFR4NPO Consultation Paper. The paper did not identify the recognition and measurement issues with revenue from commercial type arrangements such as providing services to third parties for a fee, however the following specific issues regarding non-exchange revenue by the NFP sector in regard to:

(a) the recognition issue – the timing and ascertaining control of entitlement to the resources (cash or other assets) may not be clear and can create complexity where conditions and restrictions (performance requirements) are attached to the use of the resources and when they are satisfied, particularly for multi-year grants, leading to inconsistency in recognition of revenue;

(b) the measurement issue – difficulties in valuation of some resources such as in-kind services or gifts or capital assets (both tangible or intangible, particularly where the market value or cost may not be readily available for specialised assets (e.g., medical supplies with expiration dates) or restricted assets, or capturing the volume and value of volunteers providing general services; and

(c) the disclosure issue – incorrect categorisation of funds/resources, including where revenue contains a mix of exchange and non-exchange revenue, can onerous and lead to lack of transparency which can be impact users' understanding of how the resources provided have been used as they intended, including disclosures of restrictions imposed and donated resources. Standardising the presentation of revenue in the financial statements may assist understanding of the sources of funding for an NPO however any additional disclosures are likely to lead to additional cost.

B2 The Consultation Paper offered four alternatives, all with NFP specific guidance to be developed, to address the issues in the recognition, measurement and disclosures of non -exchange revenue outlined in paragraph x above:

(a) Alternative 1 – requiring all non-exchange revenue to be recognised using the *Concepts and Pervasive Principles* in the IFRSs for SMEs Standard to require NPOs to recognise revenue from services in kind and gifts in-kind whether they can be reliably measured. Alternatively, the government grants requirements could be applied to other non-exchange revenue.

(b) Alternative 2 – requiring non-exchange revenue to be recognised using the principles of IAS 20 to extend the treatment of government grant to recognise other non-exchange revenue on a systemic basis over the periods that the entity recognises as expenses the related costs.

(c) Alternative 3 – requiring non-exchange revenue to be accounted for using the principles in IPSAS 23 to recognise revenue when an NPO controls the assets but is deferred where there are conditions. Consequently, the recognition of revenue from service in-kind would be encouraged but not mandatory, but all gifts in-kind would be required to be recognised where they can be reliable measured.

(d) Alternative 4 – requiring non-exchange revenue to be accounted for using the principles in IPSAS 23 with exceptions drawn from various national standards to be considered as part of NFP specific guidance. The exceptions could permit NPOs, with additional disclosures where an exception is used, to:

- recognise revenue from gifts in-kind donated for resale at point of sale rather than receipt;
- not recognise inventory or revenue on receipt of gifts in-kind donated for distribution where measuring their value is impractical; and
- recognise revenue and expenses when items are distributed or used to provide services.

IASB Review of IFRS for SMEs

C1 As part of its second comprehensive review of the *IFRS for SMEs* Standard, the IASB is currently in the process of assessing whether to align the IFRS for SMEs Standard with IFRS Standards. Section 23 of the *IFRS for SMEs* Standard is largely based on the principles of IAS 11 *Construction Contracts* and IAS 18 *Revenue*.

C2 As part of the review the IASB received stakeholder feedback who were generally supportive of aligning Section 23 of IFRS for SMEs with IFRS 15 with simplifications to the requirements of IFRS 15. The IASB Board at its 25 October 2021 meeting tentative decided to develop amendments to the IFRS for SMEs Standard to align it with IFRS 15 *Revenue from Contracts with Customers* by rewriting Section 23 *Revenue* of the IFRS for SMEs Standard to reflect the principles and language used in IFRS 15. It also decided to consider providing transition relief by permitting an entity to continue its current revenue recognition policy for any contracts already in progress at the transition date or scheduled to be completed within a set time after the transaction date.

IPSASB

D1 Although IPSAS do not include differential reporting for Tier 3 public sector entities, staff considered the approach to revenue adopted, or proposed, by the IPSASB to ensure all possible 'solutions' to challenges with Australian Tier 1 and Tier 2 requirements are considered. In this regard, staff considered it would be more useful to consider the approach to revenue recognition in the IPSASB's latest (not finalised) proposals, which are contained in the IPSASB Exposure Drafts (issued in February 2020):

(a) ED 70 Revenue with Performance Obligations; and

(b) ED 71 Revenue without Performance Obligations.

D2 The IPSASB's proposals—up to a point—mirror the approach in AASB 15 and AASB 1058, namely, taking a residual approach in which immediate recognition of income in relation to transfers of assets to an entity depends on no 'performance obligation' liabilities and no other liabilities (or contributions by owners) arising from the transfer.

D3 Staff have set out the proposals in ED 71 only since ED 70 transactions are outside the scope of the paper 11.4 for the Board February 2022 meeting.

D4 The six-step process for revenue recognition below is taken from the [IPSASB ED71 At a Glance Document].

Step 1 – Is there an asset to be recognized? If there is no asset to be recognized, then there is no revenue to be recognized. If an asset meets the definition and recognition criteria move onto Step 2.

Step 2 – Does the inflow result from a contribution from owners? Contributions from owners are not revenue and are therefore outside the scope of ED 71. If the inflow is not a contribution from owners move onto Step 3.
Step 3 – Does the transaction arise from a binding arrangement If the transaction does not arise from a binding arrangement, then revenue is recognized when the transfer recipient has control of the resources (DR Resources (e.g., Cash) CR Revenue). If the transaction arises from a binding arrangement move onto Step 4.
Step 4 – Are there performance obligations in the binding arrangement? If there are performance obligations in the binding arrangement, then the proposals in ED 70 are the correct requirements to use. If there are no performance obligations, move onto Step 5
Step 5 – Are there present obligations in the binding arrangement? If there are no present obligations in the binding arrangement, then revenue is recognized when the transfer recipient has control of the resources (the same as in Step 3). If there are present obligations move onto Step 6.
Step 6 – Recognize revenue when (or as) present obligations are met. If the transaction has present obligations, then when the transfer recipient has control of the resources, they will initially recognize an asset and a liability (e.g., DR Cash, CR Liability). As the present obligations are met, the transfer recipient will recognize revenue and derecognize the liability to the extent of the revenue recognized. (e.g., DR Liability, CR Revenue)