

Explanatory Statement

Accounting Standard AASB 1058

Income of Not-for-Profit Entities

Accounting Standard AASB 2016-7

Amendments to Australian Accounting Standards –

Deferral of AASB 15 for Not-for-Profit Entities

Accounting Standard AASB 2016-8

Amendments to Australian Accounting Standards – Australian

Implementation Guidance for Not-for-Profit Entities

December 2016



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Main Features of the Standards

The AASB's Income of Not-for-Profit Entities project has resulted in three Standards:

- (a) AASB 1058 *Income of Not-for-Profit Entities*;
- (b) AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities*; and
- (c) AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*.

Three separate Standards have been issued primarily to assist users to identify relevant aspects of the requirements. Overall, the Standards clarify and simplify the income recognition requirements that apply to not-for-profit (NFP) entities, in conjunction with AASB 15 *Revenue from Contracts with Customers*. These Standards supersede all the income recognition requirements relating to private sector NFP entities, and the majority of income recognition requirements relating to public sector NFP entities, previously in AASB 1004 *Contributions*. The requirements of AASB 1058 more closely reflect the economic reality of NFP entity transactions that are not contracts with customers (as defined in AASB 15). The timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset) received by an entity.

The AASB has developed extensive application guidance, included in AASB 1058 and AASB 2016-8, to help NFP entities identify enforceable agreements, whether a performance obligation exists, how to allocate the transaction price to performance obligations and also how to apply AASB 9 *Financial Instruments* to the initial recognition of non-contractual receivables arising from statutory requirements. A broad range of examples also illustrate how the new requirements will work in practice.

Application Date

AASB 1058 and AASB 2016-8 are both applicable to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, provided entities also apply AASB 15 to the same period. AASB 2016-7 is applicable to annual reporting periods beginning on or after 1 January 2017 in order to defer the effective date of AASB 15 for not-for-profit entities to 1 January 2019.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Standards Amended by the Standards

AASB 1058 makes amendments to 22 Australian Accounting Standards and four Interpretations, as set out in Appendix D to the Standard. AASB 2016-7 further amends 21 Standards and six Interpretations in deferring the application of AASB 15 and the consequential amendments that AASB 15 required to other Standards. AASB 2016-8 amends AASB 9 and AASB 15.

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

Consultation Prior to Issuing this Standard

In previous stages of this project, the AASB had exposed proposals on income recognition requirements for similar transactions as part of the following Exposure Drafts:

- (a) ED 125 *Financial Reporting by Local Governments* (October 2003) – this ED also addressed other issues;
- (b) ED 144 *Proposed Australian Guidance to accompany AASB 1004 Contributions* (November 2005);
- (c) ED 147 *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)* (February 2006);
- (d) ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)* (June 2009).

However, having regard to constituent feedback and developments in accounting internationally subsequent to the issue of each Exposure Draft, the AASB had decided not to develop the Standard on the basis of any of those previous

Exposure Drafts. The last such Exposure Draft, ED 180, was closely based on IPSAS 23 *Income from Non-exchange Transactions (Taxes and Transfers)*. At that time, the AASB decided, having regard to feedback received on the ED and the progress the International Accounting Standards Board (IASB) was making on a project to replace International Accounting Standard IAS 18 *Revenue*, not to finalise the proposals set out in ED 180, but instead to refocus its project following the issue of IFRS 15 *Revenue from Contracts with Customers*.

The IASB finally issued International Financial Reporting Standard IFRS 15 *Revenue from Contracts with Customers* in May 2014. The AASB completed its assessment of IFRS 15 in December 2014, issuing AASB 15 for application by both for-profit and not-for-profit entities. The AASB then turned its attention again to the issues with AASB 1004 *Contributions*. This resulted in the publication of Exposure Draft ED 260 *Income of Not-for-Profit Entities* in April 2015, with comments due to the AASB by 14 August 2015.

The AASB received 33 formal submissions on ED 260 and held extensive discussions with constituents and a project advisory panel in developing the requirements in these Standards. A further opportunity to comment was provided by the issuance of a fatal-flaw review draft version of the Standards in September 2016, with comments due in October 2016. The comments received were generally supportive of the AASB's approach to the recognition of income by not-for-profit entities. The illustrative examples in AASB 1058 and AASB 2016-8 were amended and extended to assist constituents to understand and apply the requirements.

The AASB has certified its process in developing these Standards as RIS-like, rather than preparing a Regulatory Impact Statement in relation to these Standards. The AASB has covered the seven RIS questions in its Basis for Conclusions attached to AASB 1058.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

Accounting Standard AASB 1058 *Income of Not-for-Profit Entities*

Accounting Standard AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities*

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

Overview of the Accounting Standard

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Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.