Fair Work Commission

Fact Sheet FS 026 | 10 March 2023

AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not-for-Profit Entities

AASB 1058 Income of Not-for-Profit Entities (AASB 1058) and AASB 15 Revenue from Contracts with Customers (AASB 15), replace AASB 118 Revenue, AASB 11 Construction Contracts and some parts of AASB 1004 Contributions of Assets[1].

The standards are applicable for not-for-profit entities with annual reporting periods beginning on or after 1 January 2019.

What are the key changes?

A reporting unit must determine whether a transaction falls within the scope of AASB 15 or AASB 1058.

AASB 15

A transaction falls under AASB 15 if there is an **enforceable contract** which has **sufficiently specific** performance obligation(s).

An enforceable contract is one where:

a. an approved contract exists;

[1] Note: AASB 15 and AASB 1058 must be applied in the same period.

b. rights regarding the goods or services to be transferred can be identified (e.g. the reporting unit has the right to receive payment in exchange for providing an agreed service with another party);

c. there are payment terms;

d. there is commercial substance (i.e. the risk, timing, or amount of the reporting units future cash flow is expected to change); and

e. it is probable that the reporting unit will collect the consideration to which it is entitled to.

A performance obligation is a promised good or service that is distinct and separately identifiable. A necessary condition that exists for identifying performance obligations for not-for-profit entities is that the promise should be 'sufficiently specific' which involves judgement. This takes into consideration:

a. the nature or type of the goods or services;

b. the cost or value of the goods or services, the quantity of the goods or services; and

c. the period over which goods or services must be transferred.

An example of a sufficiently specific performance obligation is where a grant is received by a reporting unit for $50 000 and the reporting unit has an agreement with the grantor that the amount will be spent on developing and delivering a training program to five organisers on the operation of the Fair Work Act 2009 for five hours per week for six months.

Under AASB 15, the principles are applied using the five-step approach as follows:

Step 1	Identify the contract
Step 2	Identify the performance obligation/s
Step 3	Determine the transaction price
Step 4	Allocate the transaction price
Step 5	Recognise revenue

A contract may exist regardless of whether the recipient of the goods/services transferred by the reporting unit is the grantor/provider of the funds or another party (e.g. broader public, reporting unit members).

Revenue is recognised when the performance obligations are satisfied. This may be at a point in time or over a period, which will impact upon when revenue is recognised, and the amount of revenue recognised.

AASB 1058

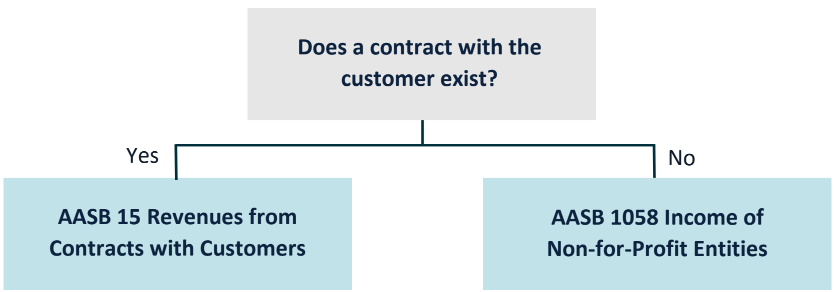
This standard applies when a not-for-profit entity receives volunteer services or enters into other transactions where the consideration to acquire an asset is significantly less than the fair value of the asset. Areas to note include:

a. the timing of revenue recognition will depend on whether there is any performance obligation or liability

b. lessees will recognise assets including leases provided at significantly less than fair value at their fair value[2] and

c. all not-for-profit entities can elect to recognise volunteer services if they can be reliably measured.

Interaction between AASB15 and AASB 1058



[2] The requirement to fair value peppercorn leases has been deferred – refer to AASB 16 leases fact sheet for further details.

So how do the standards affect the reporting unit and what needs to be done?

1. Identifying scope for revenue transactions

Revenue transactions will need to be assessed to determine whether they fall within the scope of AASB 15 or AASB 1058. Reporting units should discuss whether their agreements are enforceable and sufficiently specific with their accounting professional.

Some items that could be impacted and could change the way they are accounted for include:

Membership subscriptions	Assess whether subscription agreements contain promises to provide services such as insurance, continuing professional tutorials, legal services, access to resources and discounts. For promises to transfer a good or service that is sufficiently specific, AASB 15 will be applied to recognise membership subscription revenue over the period of performance.
Capitation fees	Consider whether the organisation's rules create 'enforceable rights and obligations' and if so, what services are promised to be transferred in exchange for capitation fees. i.e. participation and voting rights on the national council.
Levies	Does an obligation exist to provide identifiable goods/services over a specified period (whether explicit/implicit) in exchange for levies?
Donated assets	Review whether a donated asset falls within the scope of AASB 1058. If so, these are recognised at fair value. An external valuation may assist with this process.

Peppercorn leases	Under AASB 1058 and AASB 16 *Leases* (AASB 16) peppercorn leases are required to be recognised at the fair value of the leased property at the inception of the lease. The difference between the fair value of the leased asset and the lease liability measured at the present value of the 'peppercorn' lease rental, will be recognised as income[3].
Volunteer services	The fair value of volunteer services received can be recognised under AASB 1058 if the fair value of those services can be recognised reliably.

2. **Increase in disclosure requirements**

   The financial report will require increased disclosures under AASB 15 and AASB 1058. AASB 15 contains both new qualitative and quantitative disclosures. Consideration should be given around the additional disclosures that may be required when adopting these standards.

3. **Transitional methods**

   Reporting units can choose one of two transition methods when adopting these new accounting standard for the first time. This is either:

   - option one: full retrospective; or
   - option two: modified retrospective

   A reporting unit should discuss with their accounting professional the most appropriate transitional method for the reporting unit's circumstances.

Other key considerations: principal vs agent

A reporting unit will need to consider whether they are a 'principal' or an 'agent' when assessing a transaction. Factors that would indicate that a reporting unit is a principal include, for example:

[3] The requirement to fair value peppercorn leases has been deferred – refer to AASB 16 leases fact sheet for further details.

Fair Work Commission

- the reporting unit is primarily responsible for incurring the expense; and
- the reporting unit has discretion in setting the price.

For example, where a national office negotiates a contract with a supplier (e.g. insurance/legal) and incurs and pays expenses on behalf of its branches and then on-charges this expense to the branches, it would recognise the revenue from the branches on a gross basis, and not net off against the expense incurred.

To the extent that the reporting unit is considered an agent, it would disclose the revenue, and corresponding expense, net within the statement of comprehensive income.