ACT ACCOUNTING POLICY

ACT Government

Chief Minister, Treasury and Economic Development

AAPP 106 - ACT Accounting Policy Paper on AASB 15 Revenue and AASB 1058 Income for Not-For-Profit Entities (Including Transition)

For reporting periods
Ending on or after 30 June 2020

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BACKGROUND

AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* will be effective for most ACT Government agencies from reporting periods beginning on or after 1 January 2019 (i.e. financial year 2019-20) with an opening balance sheet date of 1 July 2019.

WHAT IS CHANGING

The new requirements focus more on the transfer of control of goods and services and recognise revenue when or as the work is completed. For example, if a not-for-profit entity receives a grant under an enforceable contract with sufficiently specific performance obligations, the entity will recognise revenue when or as it fulfils the performance obligations. This contrasts with the current requirements under which such income is recognised at the time of receipt of cash for most revenue streams.

The deferred recognition of income may result in some revenue received being deferred into future years (and create a timing difference to current practice).

There will be agreements where revenue continues to be recognised on receipt where the agreement is not enforceable, there are no performance obligations, or those performance obligations are not sufficiently specific.

AASB 15 Revenue from Contracts with Customers

In order for AASB 15 to apply to a transaction the contract must:

a. be enforceable;
b. contain performance obligations that are sufficiently specific; and
c. not result in the specified goods or services being controlled by the entity.

AASB 1058 Income of Not-for-Profit Entities

If a transaction does not fall within the scope of AASB 15, agencies need to consider whether AASB 1058 applies. AASB 1058 applies to income with a donation component, i.e. transactions where the consideration to acquire an asset is significantly less than fair value and principally to further objectives.

AASB 1058 adopts a residual approach, meaning that agencies first apply other applicable Australian Accounting Standards to a transaction before recognising income under AASB 1058.

AASB 1058 covers transactions such as certain grants, donations, appropriation received by government departments, taxes, rates and fines. Other than grants, the accounting treatment for these types of transactions is unchanged.

AASB 1058 also covers volunteer services. The accounting treatment of volunteer services is largely unchanged from the current treatment.

TRANSITION APPROACH – BOTH STANDARDS (AASB15.C3(B))

The ACT will adopt the modified retrospective implementation under both standards. This means that agencies are required to **recognise the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings** for the annual reporting period 2019-20. Under this method agencies are required to apply this method **only to contracts that are not completed contracts** at 1 July 2019.

Completed contracts are defined as:

(a) Under AASB 15 a completed contract is one for which the agency has transferred all the goods or services. For not-for-profit entities a completed contract also includes a contract for which the entity has recognised all the revenue in accordance with AASB 1004 Contributions, or revenue in combination with a provision in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

(b) Under AASB 1058 a completed contract is a contract or transaction for which the entity has recognised all the income in accordance with AASB 1004.

The following practical expedient shall be used when applying this standard using the modified retrospective approach:

(a) For contracts modified before the date of initial application, an entity need not separately evaluate the effect of each contract modification. Instead of accounting for the effects of each contract modification separately, the entity shall reflect the aggregate effect of all past contracts, modifications that occurred before the date of initial application when identifying performance obligations and determining and allocating the transaction price (AASB15 C3(b), C7, 7A & 8).

(b) An entity shall apply the practical expedient **consistently** to all contracts within the current reporting period.

ACT Government agencies shall not restate any contracts which meet the definition of a completed contract.

The agency needs to disclose the amount by which each financial statement line item is affected in the current reporting period by the application of AASB 15 as compared to AASB 111, AASB 118 and related Interpretations that were in effect before the change; and provide an explanation for the reasons for significant changes (AASB15 C8). An example of these disclosure requirements is contained in the ACT 2019-20 Model Statements available at https://apps.treasury.act.gov.au/accounting

These practical expedients have been adopted to reduce the costs and onerous burden of restating the comparative information. The practical expedients further reduce the effort and costs associated with the application of the standard.

IMPACT ON EXISTING CONTRACTS (AASB15.C2 – AUSC2.1) (AASB1058.C2) – TRANSITION

During transition this also means that existing contracts where revenue has been recognised prior to 2019-20 and performance obligations have not been fulfilled, this revenue will not be recognised again when performance obligations are met.

For contracts (that meet the criteria) for which cash was received and recognised as revenue in prior years, if performance obligations are satisfied in 2019-20, that revenue cannot be recognised again (recycled) in 2019-20.

For existing contracts where cash is received from 2019-20 revenue will be recognised as performance obligations are met.

POLICY STRUCTURE

This paper has 4 parts:

Part A: AASB 15 *Revenue from Contracts*

Part B: AASB 1058 *Income of Not-for-Profit Entities*

Part C: Decision Tree for whether to apply AASB 15 or AASB 1058 to a transaction (other than volunteer services)

Part D: Expected Impact on Revenue Items

This Paper also includes guidance on licencing arrangements under AASB 15.

The additional disclosure requirements under AASB 15 and AASB 1058 will be included in the Model Financial Statements relevant for the reporting period 2019-20; as follows:

- AASB 15 specifies disclosures applicable to *contracts with customers* (AASB 15.113 – 122*), significant judgements or changes in judgements* (AASB 15.123-126) and *any assets recognised from the costs to fulfil a contract* (AASB 15.127-128).
- AASB 1058 specifies disclosure for *volunteer services* and transactions where entities *acquire an asset for consideration at considerably less than fair value* principally to enable the entity to further its objectives. (AASB 1058.24-41).

RELEVANT STANDARDS

- AASB 15 *Revenue from Contracts*
- AASB 1058 *Income of Not-for-Profit Entities*
- AASB 1004 *Contributions*
- AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*
- AASB 2019-6 *Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities*

PART A: AASB 15 REVENUE FROM CONTRACTS

AASB 15 mainly replaces AASB 118 *Revenue* and AASB 111 *Construction Contracts* and associated accounting interpretations.

A1. APPLICATION DATE

AASB 15 is applicable to:

- For-Profit entities – from reporting periods beginning on or after 1 January 2018; and
- Not-For-Profit entities – from reporting periods beginning on or after 1 January 2019.

For most ACT Government agencies this will be the reporting period 2019-20.

ACT Government agencies shall not early adopt this Standard.

A2. SCOPE (AASB 15.5–15.8)

An entity shall apply this Standard to all contracts with customers. The Standard lists certain exceptions that are outside its scope, for example, lease contracts, insurance contracts, income arising from financial instruments.

EXCLUSIONS

(a) Lease contacts (AASB 16)
(b) Insurance contracts (AASB 4)
(c) Financial instruments and other contractual rights under AASB 9, AASB 10, AASB 127.
(d) Joint arrangements (AASB 11)
(e) Investments in Associates and Joint Ventures (AASB 128)
(f) Non-monetary exchanges between entities in the same line of business

In respect of not-for-profit entities, a transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset that is to be controlled by the entity, as described in AASB 1058 Income of Not-for-Profit Entities, is not within the scope of this Standard. (AASB 15.Aus5.1).

A contract with a customer may be partially within the scope of AASB 15 and partially within the scope of other Standards listed under the exceptions above. In such instances, an entity must first apply the separation and/or measurement requirements of those other standards to the relevant components of the contract and then apply AASB 15 to the remaining components of the contract (AASB 15.7).

A3. PORTFOLIO APPLICATION (AASB 15.4)

ACT Government agencies shall apply AASB 15 to a portfolio of contracts with similar characteristics if they reasonably expect that the effects on the financial statements would not differ materially from applying AASB 15 to the individual contracts within that portfolio.

Some entities may offer a range of goods and services and options within that range. Such entities need to exercise judgement in determining that the contracts segregated into portfolios have similar characteristics, if the impact of applying AASB 15 to the portfolio would not be materially different to applying AASB 15 to the individual contracts.

A4. FIVE STEP REVENUE RECOGNITION MODEL

A five-step model is applied to determine the timing and quantum of revenue to be recognised:
Step 1: Identifying the contract with a customer (AASB 15.9-15.21 & 15.F5-F19)
Step 2: Identify performance obligations in the contract (AASB 15.22-15.45 & 15.F20-F27)
Step 3: Determine the transaction price (AASB 15.46-15.72 & 15.F28-F32)
Step 4: Allocate the transaction price to the performance obligations (AASB 15.73-15.94)
Step 5: Recognise revenue as the performance obligations are satisfied (AASB 15. B15-B19)

A4.1 STEP1: IDENTIFYING THE CONTRACT WITH A CUSTOMER (AASB 15.9-15.21 & 15.F5-F19))

The first step is to identify whether there is a contract which meets all of the following criteria (AASB15.9):

(a) parties to the contract have approved the contract and are committed to perform their respective obligations
(b) entity can identify each party's rights relating to the goods or services to be transferred
(c) entity can identify the payment terms for the goods or services to be transferred
(d) the contract has commercial substance
(e) it is probable that the entity will collect the consideration to which it is entitled in exchange for the underlying goods or services.

These criteria need to be reassessed whether there is a change in facts and circumstances.

"A contract is an agreement between two or more parties that creates enforceable rights and obligations" (AASB 15 Defined Terms).

For a performance obligation to exist, the promise to transfer a good or service must be sufficiently specific to be able to determine when the obligation is satisfied. In determining whether the promise is sufficiently specific, judgment will be required taking into consideration the following conditions (AASB 15.F20):

- the nature or type of goods or services;
- the cost or value of the goods or services;
- the quantity of the goods or services; and
- the period over which goods or services must be transferred.

The following may not be considered as sufficiently specific ((AASB 15.F24-F27):

- a promise to transfer unspecified goods or services over a particular time period;
- existence of an acquittal process alone; or
- a statement of intent alone.

Customer

A customer is the party that promises consideration in exchange for goods or services. For some contracts the customer may direct that the goods and services be provided to third party beneficiaries (including individuals or the community at large) on its behalf. Such arrangements may still fall within the scope of AASB 15.

For AASB 15 to apply it is important that the goods and services are transferred to a customer or third parties on behalf of the customer i.e. not retained by the entity for its own use. If the goods or services are retained by the entity, AASB 1058 may apply.

Contract (AASB 15.10 & 15.F8-F9)

Contracts / agreements may be written, oral or implied by the entity’s customary practices in performing or conducting its activities. A contract exists if the parties’ rights can be identified, they agree and are committed to perform their respective obligations, and the payment terms can be identified.

Contract Term (AASB 15.11)

AASB 15 is applied to the duration of the contract. Some contracts may have no fixed duration and can be terminated or modified by either party at any time. Other contracts may automatically renew on a periodic basis specified in the contract. The duration of the contract is the contractual period in which the parties to the contract have present enforceable rights and obligations.

Enforceable Agreement (AASB 15.F10-F18)

The term ‘contract’ refers to an agreement with another party that creates *enforceable* rights and obligations. An agreement may be enforceable “through legal or equivalent means”.

The enforceability of agreements does not depend on their form. For example, documents such as Memoranda of Understanding, Heads of Agreement and Letters of Intent can constitute enforceable agreements regardless of clauses in the contract stating that they are not legally enforceable (AASB 2016-8. F13).

A contract could still be enforceable despite a lack of history of enforcement and despite the customer's intention not to enforce. The customer's intent not to enforce is at its discretion and does not affect their right to enforce. Enforceability depends on the customer's capacity to enforce (AASB 2016-8. F16). A number of Commonwealth National Partnership Agreements explicitly state that the parties do not intend for the provisions of the agreement to be legally binding. These agreements may nonetheless be deemed to be enforceable given the parties' commitment to the terms and conditions of the agreements.

For NFP entities enforceability mechanisms may arise from administrative arrangements or statutory provisions such a directive from a Minister to an ACT government agency. (AASB 15.F14).

Commercial substance (AASB 15.F19)
A contract may have commercial substance even if it is non-commercial to the NFP entity (for example, subsidised goods or services). This is because they could still result in a change in the 'risk, timing or amount of the entity's future cash flows". 'Commercial substance' should be read as a reference to economic substance i.e. giving rise to substantive rights and obligations.

Collectability (AASB 15.9(e))
The assessment of a customer's credit risk is an important part of determining whether a contract is valid. In assessing whether the collectability of the consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

An entity needs to exercise judgement in determining whether the consideration should be reduced for any price concessions. Factors to be considered include the contract terms, customer's expectations arising from the entity's customary business practices and other facts and circumstances indicating the entity's intentions.

A4.1.1 Accounting when the Criteria for a Contract are not met (AASB 15.15-15.16)

Where the criteria under AASB 15.9 (explained above) are not met and the entity receives consideration from the customer, the entity will recognise the consideration received as contract liability (revenue received in advance representing the entity's remaining obligations under the contract). The entity will recognise the associated revenue only when the entity has no remaining obligations to transfer goods or services to the customer and the consideration received is non-refundable.

A4.1.2 Combining Contracts (AASB 15.17)

Usually, each contract is accounted for separately, but it may be necessary to either combine or separate multiple contracts depending on the substance of the arrangement. An entity may need to combine similar contracts with the same customer and assess them as one for the analysis of revenue recognition.

Entities need to combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:

(a) the contracts are negotiated as a package with a single commercial objective;
(b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
(c) the goods or services promised in the contracts are a single performance obligation.

A4.1.3 Modifying Contracts (AASB 15.18-15.21)

A contract may be modified to create new or change existing enforceable rights and obligations of the parties to the contract. Contract modifications are common in long-term contracts where amendments are made to the goods and services supplied during the contract period.

Contract modifications may be recognised as adjustments to the original contract or as a new separate contract depending on whether or not new or distinct performance obligations with standalone selling prices are being created as a result of the modification. This decision can require significant judgement.

A4.2. STEP 2: IDENTIFY PERFORMANCE OBLIGATIONS (AASB 15.22-15.45 & 15.F20-F27)

The second step is to identify the performance obligations in the contract. Properly identifying performance obligations in a contract is one of the core principles of AASB 15. Performance obligations may be explicitly stated in the contract or be implied by the entity's customary business practices.

Entities need to identify each distinct performance obligation. A performance obligation is distinct if (AASB 15.27):

- the customer can benefit from the good or service either on its own or together with other resources; and
- the promise is separately identifiable.

On the other hand, an entity may need to break down a contract into its individual components, or 'un-bundling', to assess performance conditions of a contract separately. Un-bundling is relevant in contracts where entities sell the bundled products separately, as well as part of a discounted bundle. Under AASB 15, revenue recognition is based on performance obligations rather than the contract as a whole.

A4.3 STEP 3: DETERMINE THE TRANSACTION PRICE (AASB 15.46-15.72 & 15.F28-F32)

The transaction price is the amount of consideration which an entity expects to be entitled to in exchange for transferring goods or services to the customer. Usually, the transaction price is a fixed amount. However, the transaction price could vary because of discounts, rebates, refunds etc. An entity should consider the effects of variable consideration and include those elements in the transaction price.

The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price. When determining the transaction price, agencies shall consider the effects of all the following:

(a) variable consideration (paragraphs 50–55 and 59);
(b) constraining estimates of variable consideration (paragraphs 56–58);
(c) the existence of a significant financing component in the contract (paragraphs 60-65);
(d) non-cash consideration (paragraphs 66–69); and
(e) consideration payable to a customer (paragraphs 70–72).

For the purpose of determining the transaction price, agencies shall assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified.

Variable consideration could exist even when the price appears fixed. If price can change due to the occurrence or non-occurrence of future events, such as liquidated damages in a construction contract, the price includes both fixed (e.g. total amount less maximum amount of liquidated damages that could be paid) and variable consideration (e.g. the liquidated damage that will not be paid). For example, a $10m development contract, with a $2m penalty if not completed on time has an $8m fixed and a $2m variable component. Other examples include transaction price based on a fixed percentage of an underlying value (e.g. net assets) or a fixed amount per usage, price protection clauses, and anticipated price concessions.

For most contracts in the ACT Government the level of variable consideration is not expected to be significant.

A4.4 STEP 4: ALLOCATE THE TRANSACTION PRICE TO PERFORMANCE OBLIGATIONS (AASB 15.73-15.94)

Where a contract contains multiple performance obligations, the transaction price needs to be allocated to each distinct performance obligation on the basis of relative stand-alone selling price. The best evidence of stand-alone selling price is the price at which the good or service is sold separately by the entity.

If a stand-alone selling price is not directly observable, an entity should estimate a stand-alone value taking into account market conditions, entity-specific factors and information about the customer or class of customer. This could be done by using an 'adjusted market assessment approach' which may include referring to competitors' prices for similar goods or services; or an 'expected cost plus approach' in which an entity estimates its costs to satisfy that performance obligation and then adds an appropriate margin.

An entity should not account for components within multiple performance obligations arrangements as 'free' goods or services and attribute no transaction price to them.

A.4.5 STEP 5: RECOGNISE REVENUE AS THE PERFORMANCE OBLIGATIONS ARE SATISFIED

Revenue is recognised only when the performance obligation is satisfied by transferring the promised goods and services to the customer.

A performance obligation may be satisfied at a point in time (AASB15. 38) or over time (AASB 15. 25-37). For revenue recognised at a point in time, the entity needs to determine that point in time with reference to when control of the goods transfer to the customer. This change may cause the timing of some revenue items to change under AASB 15.

For performance obligations satisfied over time, methods for measuring progress toward complete satisfaction of performance obligations include the output method based on direct measurement of the value to the customer (AASB 15. B15) or the input method including all inputs such as resources consumed, labour hours expended and costs incurred (AASB 15. B18-19).

A5. MATERIALITY CONSIDERATIONS

The AASB Practice Statement 2 Making Materiality Judgements (December 2017) should be used by agencies in their assessment of materiality. Making materiality judgements involves both quantitative and qualitative considerations. A quantitative threshold - a specified level, rate or amount used in assessing size - can be a helpful tool in making a materiality judgement. However, a quantitative assessment alone is not always sufficient to conclude that an item of information is not material. The entity should further assess the presence of qualitative factors.

Agencies are encouraged to consider materiality in preparing and streamlining their financial statements. AASB 101 defines information as material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Australian Accounting Standards Board (AASB) re-issued AASB 101 Presentation of Financial Statements to streamline and simplify financial statements. It clarified that entities should not disclose immaterial information in their financial statements and that the presentation of information in notes can and should be tailored to provide users with the clearest story of an entity's financial performance and financial position. Agencies are strongly encouraged to undertake an annual assessment with the view to further simplify the presentation of their financial statements.

While there is no 'one size fits all' approach to streamlining financial statements, the Materiality Guidance included in the ACT Government Model Financial Statements should be considered, to determine when to:

- provide separate line items on the face of the financial statements (i.e. Operating Statement, Balance Sheet, Statement of Changes in Equity and Cash Flow Statement);
- provide separate note disclosures for a face statement line item;
- reduce immaterial detail provided in separate note disclosures; and
- provide explanations for variances between prior and current year actual figures.

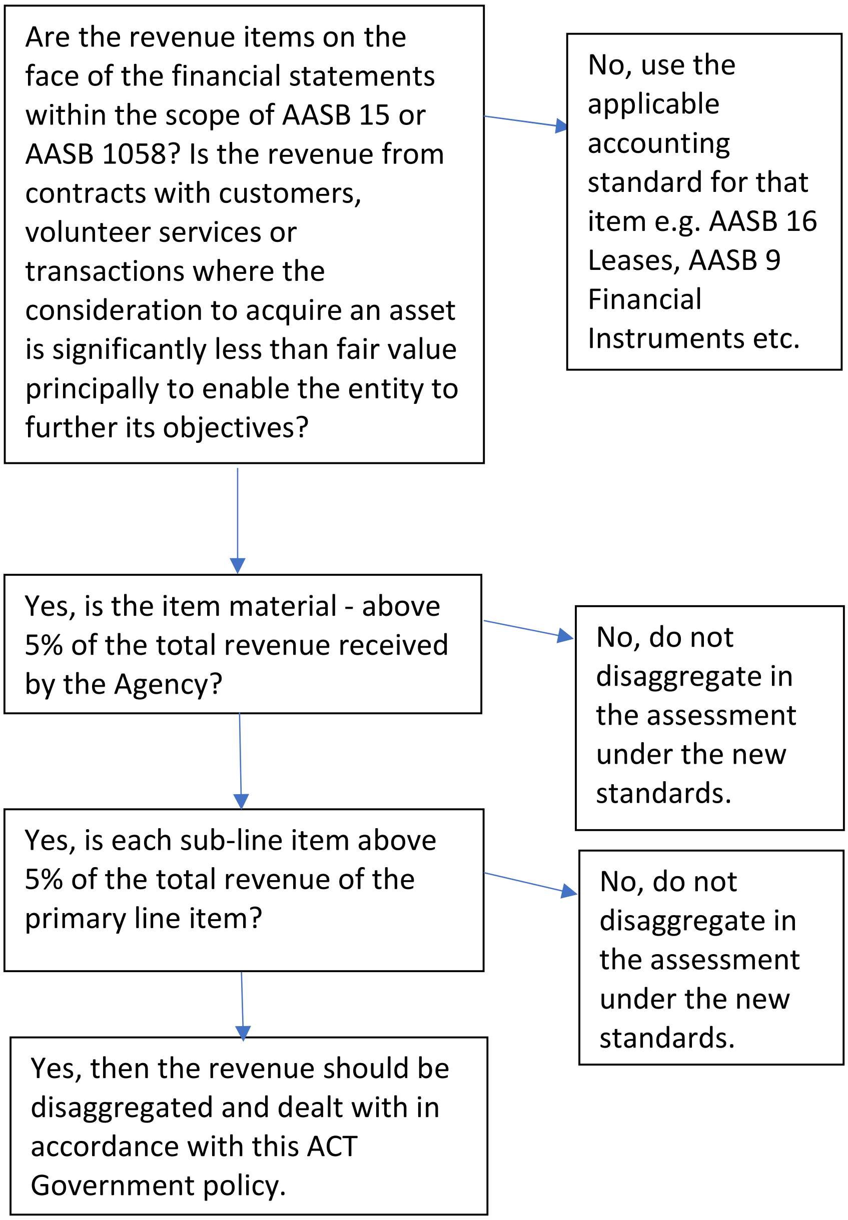
The Materiality Guidance provided as part of the ACT Government Model Financial Statements is available at https://apps.treasury.act.gov.au/accounting

As circumstances change over time, materiality judgements should be reassessed at each reporting date.

Each agency will need to exercise judgement in determining appropriate thresholds for disclosures in their financial statements. Agencies are encouraged to agree their specific thresholds for disclosures along with exceptions with their Audit Committee. .

ACT Government agencies shall consider materiality in the assessment of current Revenue from Contracts with Customers and Income for NFP Entities.

A5.1 FLOWCHART FOR THE ASSESSMENT OF MATERIALITY



A6. PRINCIPAL VERSUS AGENT CONSIDERATIONS (AASB 15.B34-B38)

An entity needs to determine whether it is the principal in the arrangement (i.e. it will provide goods/services to the customer) or it is an agent (i.e. its role is to arrange for another party to provide the goods/services). (AASB 15.B34)

An entity is a principal if it controls the specified good or service before they are transferred to a customer. An entity that is a principal recognises revenue in the gross amount of consideration when it satisfies the performance obligations. (AASB 15.B35)

An entity that is an agent recognises revenue in the amount of any fee or commission (if any) to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party, when it satisfies its performance obligations. (AASB 15.B36) Agencies should note that this may need to be considered for some commonwealth grants where the ACT Government is effectively acting as a passthrough.

Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore a principal) include, but are not limited to, the following (AASB 15.B37):

- the entity is primarily responsible for fulfilling the promise to provide the specified good or service.
- the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return).
- the entity has discretion in establishing the price for the specified good or service. Sometimes an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

A7. LICENCES (AASB15.26(I), B52-B63B AND APPENDIX G (NFP))

In determining whether a transaction is a licence and subject to AASB 15, the entity will need to consider the following features:

(a) Is the arrangement discretionary, rather than compulsory?
(b) What is the primary purpose?
(c) Does the arrangement create direct rights and obligations?
(d) Does the arrangement give specific permission that must be obtained prior to performing an activity?
(e) Does the arrangement transfer control of an underlying asset?

For non-IP licences which do not involve assets of the licensor, which is distinct from other goods or services shall be accounted for as a separate performance obligation (AASB15. G15 (c)) and revenue should be recognised under AASB15. 31-38, either over time or at a point in time.

Table 1 below is a flowchart to assist in determining the distinction between a tax and a licence for licences issued by not-for-profit public sector licensors. Licences are accounted for under AASB 15 whereas taxes are accounted for in accordance with AASB 1058.

A7 Licences continued

The standard also contains exemptions for low-value and short-term licences (AASB 15. Aus 8.1 - Aus 8.5). An entity can choose to apply expedients under AASB 15 to short-term licences and low value licences (AASB G22-G27), unless the licences have variable consideration in their terms and conditions. With short-term and / or low value licences agencies can recognise the revenue associated with those licences either at the point in time the licence is issued, or on a straight-line basis over the licence term or another systematic basis. Further conditions are included at Aus 8.4 for modifications, changes in consideration and any change in terms of a licence.

ACT Government agencies shall apply a threshold of $10,000 and/or less than 12 months to determine whether a licence is a low value and/or short term. When applying these thresholds revenue recognition should be at a point in time (up-front).

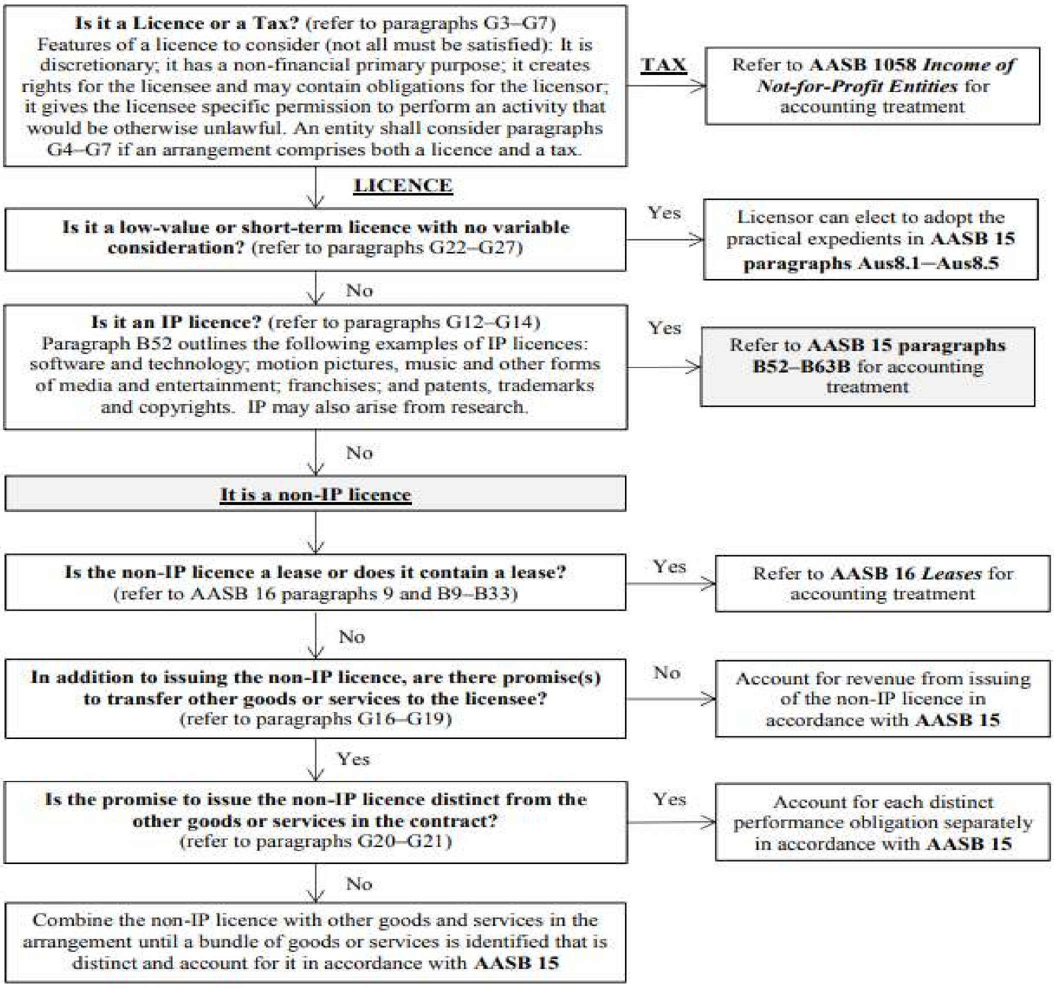
A licence shall be treated as if it is a new licence for the purposes of AASB 15 if there is:

(a) a modification to the scope of, or the consideration for, the licence; or

(b) any change in the term of the licence. (Aus8.4)

The election for short-term licences shall be made by class of licence. A class of licences is a grouping of licences of a similar nature and similar rights and obligations attached to the licence. The election for licences for which the transaction price is of low value can be made on a licence-by-licence basis (Aus8.5).

Table 1 Licence or Tax Flowchart



A8. TRANSITION

A8.1 DATE OF INITIAL APPLICATION

The date of initial application is the start of the reporting period in which an entity first applies this Standard. For most NFP agencies this will be 1 July 2019.

A8.2 TRANSITIONAL OPTION – PARTIAL RETROSPECTIVE APPROACH (AASB 15.C3(B) & 15.C7-C7A)

ACT Government agencies shall apply the partial retrospective approach under C5(b) i.e. they shall not restate comparative information; and shall recognise the cumulative effect of initially applying AASB 15 as an adjustment to the opening balance of retained earnings at the date of initial application (i.e. 1 July 2019 for most NFP agencies).

Agencies are required to apply this transitional approach to all their revenue from contracts with customers.

A8.3 PRACTICAL EXPEDIENTS (AASB 15.C7)

AASB 15 allows entities to apply the following practical expedients when applying the partial retrospective approach:

(a) Apply Standard retrospectively only to contracts that are not completed contracts at the date of initial application (rather than all the contracts). See section 3 for further information about completed contracts.

ACT Government agencies shall apply the practical expedient AASB15.C7 on transition and therefore apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application.

For the purposes of transition a completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations. (AASB 15.C2(b))

In respect of NFP entities, a completed contract also includes contracts for which the entity has recognised all of the revenue in accordance with AASB 1004 *Contributions*, or revenue in combination with a provision in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (AASB 15.AusC2.1).

This expedient eliminates the need to review contracts completed prior to the date of initial application (1 July 2019 for most ACT Government agencies) even though AASB 15 would have required the income to be recognised beyond that date. This expedient does not apply to contracts entered into after the date of initial application.

The assessment of whether a contract is completed or not needs to be made at the date of initial application.

A8.3 Practical Expedients continued

(b) Reflect the aggregate effect of all previous contract modifications (rather than evaluating the effect of each contract modification).

ACT Government agencies shall apply the practical expedient AASB 15.C7A on transition and therefore reflect the aggregate effect of all contract modifications that occur before the date of initial application.

Agencies shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

- identifying the satisfied and unsatisfied performance obligations;
- determining the transaction price; and
- allocating the transaction price to the satisfied and unsatisfied performance obligations.

Under the Standard entities are required to apply this expedient consistently to all contracts.

PART B: AASB 1058 INCOME OF NOT-FOR-PROFIT ENTITIES

AASB 1058 replaces most of the income recognition requirements in AASB 1004 *Contributions*. It clarifies and simplifies the income recognition requirements that apply to NFP entities, in conjunction with AASB 15.

"This Standard establishes principles for not-for-profit entities that apply to (AASB 1058.1):

(a) transactions where the consideration to acquire an asset is significantly less than fair value principally to enable a not-for-profit entity to further its objectives; and

(b) the receipt of volunteer services."

B1. APPLICATION DATE

AASB 1058 applies only to NFP entities.

AASB 1058 is applicable to entities for reporting periods beginning on or after 1 January 2019. For most ACT Government agencies this will be the reporting period 2019-20 with an opening balance sheet of 1 July 2019

ACT Government agencies shall not early adopt this Standard.

B2 SCOPE (AASB 1058.7 & 1058.B2-B11)

"An entity shall apply this Standard to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable the entity to further its objectives, and the receipt of volunteer services." The Standard lists certain exceptions that are outside its scope, for example, insurance contracts, restructures of administrative arrangements within the scope of AASB 1004.

B2 Scope continued
AASB 1058 applies to transactions such as grants, donations, appropriations received by an entity to further its objectives, with no consideration provided in exchange. It also applies to non-contractual receivables arising from statutory requirements such as taxes, fines, rates etc.

AASB 1058 applies only to NPF revenue agreements where AASB 15 does not apply. Accordingly, AASB 1058 does not apply when a contract or transaction:

- is enforceable;
- has sufficiently specific performance obligations;
- involves goods or services that are not retained by the entity for its own use; and
- is not a donation and does not involve volunteer services.

Agencies will need to assess each contract under each income stream to determine whether AASB 15 or AASB 1058 applies. This assessment cannot be made at a high level.

Non-refundable consideration
If all or a part of the consideration is non-refundable (in the event the entity does not fulfil its promises), this non-refundable portion would be accounted for up-front as a contribution in accordance with AASB 1058 given the entity does not have to fulfil any obligations in order to retain the contribution.

But the existence of a refund obligation in an agreement is not considered a performance obligation on its own and therefore does not provide sufficient grounds to defer revenue. This is because the entity has the discretion to avoid returning the funds by not breaching the agreement.

This requirement does not apply to capital injection appropriation as they are recognised as equity contributions, not revenue in agency books.

B3. RECOGNITION AND MEASUREMENT (AASB 1058.8-14)

B3.1 RECOGNISING THE ASSET RECEIVED (AASB 1058.8)

Entities need to recognise the asset from a transaction by applying requirements under other relevant accounting standards. Therefore, if the NFP entity receives:

- Cash - recognise as a financial asset under AASB 9 *Financial Instruments*;
- Leased assets – recognise a right-of-use asset under AASB 16 *Leases*;
- Property, plant and equipment - recognise under AASB 116 *Property, Plant and Equipment*; and
- Intangible assets – recognise under AASB 138 *Intangible Assets*.

Where the asset was received for significantly below fair value then it should be recorded at fair value, this is a change from the previous rules which referred to acquisition of an asset at nil or nominal consideration.

B3.2 RECOGNISING THE 'CREDIT ENTRY' (AASB 1058.9)

Entities need to recognise the credit entry in the liability / equity section of the balance sheet (if any) in accordance with other relevant Australian Accounting Standards if / when it meets the relevant criteria:

- Contribution by owners (AASB 1004);
- Revenue or contract liability (AASB 15);
- Lease liability (AASB 16);
- Financial instrument (AASB 9); or
- Provision (AASB 137 Provisions, Contingent Liabilities and Contingent Assets).

Judgement needs to be exercised to determine which 'bucket' the credit entry belongs to.

Entities shall recognise as income the excess of the amount of the asset over the liability recognised per above, unless the asset is to enable the entity to acquire or construct a recognisable non-financial asset.

B3.3 TRANSFERS TO ENABLE ACQUISITION OR CONSTRUCTION OF A RECOGNISABLE NON-FINANCIAL ASSET (AASB 1058.15-17 & 1058.B15-B17)

An entity may receive cash (or another financial asset) to construct or acquire a non-financial asset (e.g. building) for its own use. This will not fall within the scope of AASB 15 given the asset is for the entity's own use (i.e. there is no customer).

AASB 1058 requires the entity to defer income until it has acquired or as it is constructing the asset in accordance with the terms of the transfer. Accordingly, the entity will initially recognise a contract liability (rather than income) for the amount received, representing its obligation to acquire or construct the non-financial asset. This liability is then recognised as income as the entity satisfies its obligation to purchase or construct the non-financial asset.

B4. VOLUNTEER SERVICES (AASB 1058.18-22)

Volunteer services are services received by an entity from individuals or other entities without charge or for consideration significantly less than their fair value. Examples include volunteer fire fighters, parents volunteering in tuckshops, individuals volunteering at cultural events, etc.

Entities are required to recognise as income the fair value of volunteer services where fair value can be reliably measured, and services would be purchased if not otherwise donated.

A NFP entity may choose to elect to recognise volunteer services if the fair value of those services can be reliably measured whether or not the services would be purchased if not otherwise donated (AASB 1058.19). Where a readily observable market price exists for the service or where services would have been purchased if they were not donated (AASB 1058.20) – this is not the case for most ACT Government agencies.

ACT Government agencies shall not recognise volunteer services unless the fair value of those services can be reliably measured, <u>and</u> the services would be purchased if not volunteered.

B5. CONCESSIONARY (PEPPERCORN) LEASES

AASB 1058 requires entities to record a right-of-use asset at fair value, a liability for the present value of contractual lease payments and income for the difference between the asset and liability, either:

- upfront (if the entity has no ongoing obligations); or
- as and when the entity satisfies any obligations attached to the lease.

AASB 2018-8 *Amendments to Australian Accounting Standards-Right-of-Use Assets of Not-for-Profit Entities* amends the requirements by providing a temporary option for NFP entities to not apply the fair value initial measurement, and instead measure at cost the right-of-use assets arising under leases with significantly below market terms and conditions principally to enable the entity to further its objectives.

ACT Government agencies shall measure at cost the right-of-use assets arising under leases with significantly below market terms and conditions principally to enable the entity to further its objectives.

Accordingly, until the AASB reviews this, agencies will measure their concessionary leases at cost (the amounts are likely to be immaterial). This basically means agencies will continue to account for such leases as per current arrangements.

As AASB 1058 does not provide a quantitative threshold for a difference to be considered 'significantly' less than fair value, the determination of what constitutes 'significantly' less than fair value will require the application of judgement.

Aus59.1 and AASB 2018-8 specify additional disclosure requirements associated with concessionary leases. This additional qualitative and quantitative information relating to the agency's dependence on leases that are concessionary, nature and terms of the leases.

B6. CONTRACT WITH A CUSTOMER THAT INCLUDES A DONATION COMPONENT

Customers may enter into contracts with NFPs with a dual purpose of obtaining goods and services from the NFP as well as assisting the NFP achieve its objectives by providing a donation. In such circumstances, the transaction price needs to be split and:

- the portion that relates to the transfer of the promised goods and/or services be accounted for as a contract with a customer in accordance with AASB 15; and
- the balance of the transaction price (donation component) be accounted for in accordance with AASB 1058, which normally requires such amounts to be recognised as income immediately.

B6 Contract with a Customer that includes a Donation Component continued
The following factors may indicate that a component of the transaction price is not related to the promised goods or services, and therefore may be in the nature of a donation:

- the component is not refundable;
- where the NFP has the status of a deductible gift recipient, the customer can claim part of the transaction price as a tax deduction for a donation;
- the consideration is promised as part of a fund-raising event;
- the consideration is increased specifically for the purpose of making a donation; or
- there is a substantial difference between the consideration and stand-alone selling price of the delivered good/service.

If the donation component is not material at the individual contract level, the NFP entity need not account for it separately.

B7. TRANSITION

B7.1 DATE OF INITIAL APPLICATION

The date of initial application is the start of the reporting period in which an entity first applies this Standard. For most agencies this will be 1 July 2019.

B7.2 TRANSITIONAL OPTION – PARTIAL RETROSPECTIVE APPROACH (AASB 1058.C3(B) & 1058.C6-C11)

ACT Government agencies shall apply the partial retrospective approach under C3(b) i.e. they shall not restate comparative information; and shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings at the date of initial application.

Under this transitional approach an entity records the cumulative effect of initially applying AASB 1058 as an adjustment to the opening balance of retained earnings (i.e. 1 July 2019 for most ACT Government agencies).

B7.3 PRACTICAL EXPEDIENTS (AASB 1058.C6 &C8)

AASB 1058 allows entities to apply the following practical expedient when applying the partial retrospective approach:

(a) Apply Standard retrospectively only to contracts and transactions that are not completed contracts (rather than all the contracts) at the date of initial application. (AASB 1058.C6)

ACT Government agencies shall apply the practical expedient AASB 1058.C6 on transition and therefore apply this Standard retrospectively only to contracts and transactions that are not completed contracts at the date of initial application.

B7.3 Practical Expedients continued

For the purposes of transition a completed contract is a contract or transaction for which the entity has recognised all of the income in accordance with AASB 1004 *Contributions*. (AASB 1058.C2(b))

This expedient eliminates the need to review contracts that were completed prior to the date of initial application (1 July 2019 for most ACT Government agencies) for which the revenue has been recognised in full prior to the application of AASB 1058 (i.e. under AASB 1004). Accordingly, no adjustment is required for completed contracts even though AASB 1058 would have required the income to be recognised beyond that date. This expedient does not apply to contracts entered into after the date of initial application.

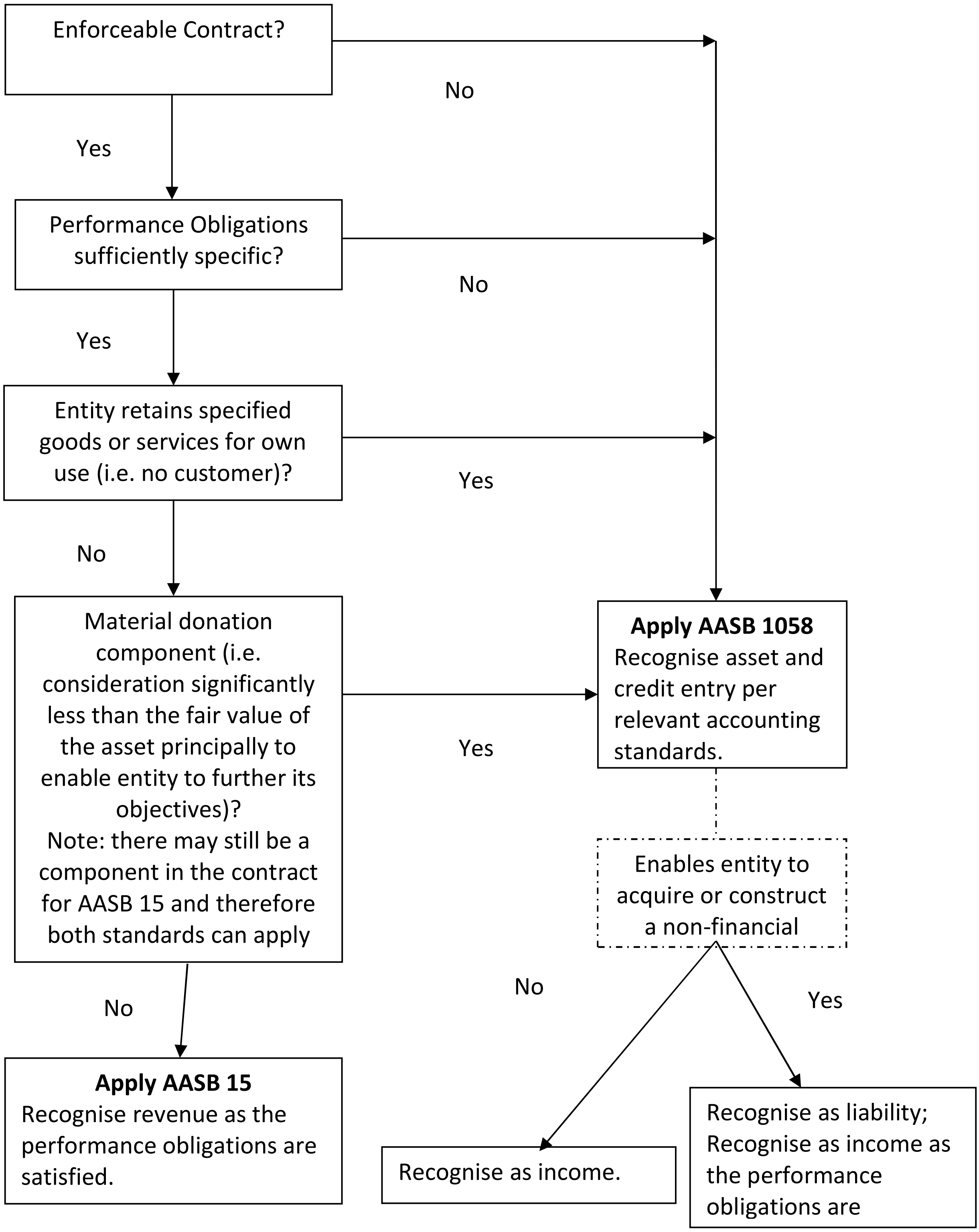
The assessment of whether a contract is completed or not needs to be made at the date of initial application.

(b) Not apply standard retrospectively to assets acquired for consideration that was significantly less than fair value. (AASB 1058.C8)

ACT Government agencies shall not apply standard retrospectively to assets acquired for consideration that was significantly less than fair value principally to enable the entity to further its objectives that were measured on initial recognition under other Australian Accounting Standards at a cost that was significantly less than fair value.

Agencies will not remeasure assets acquired for consideration that was significantly less than fair value principally to enable the entity to further its objectives, at fair value.

PART C: DECISION TREE FOR WHETHER TO APPLY AASB 15 OR AASB 1058 TO A TRANSACTION (OTHER THAN VOLUNTEER SERVICES)



C1. COMMONWEALTH GRANTS FUNDING

C1.1 IMPACT FROM THE NEW REVENUE STANDARDS

Some of the Commonwealth funding received is quite general and for a broad purpose. This includes GST Revenue, Financial Assistance-Local Government Grants and Specific Purpose Payments (SPPs). These funding arrangements fall outside the scope of AASB 15 because the underlying performance obligations are not sufficiently specific.

However, some Commonwealth grants have very specific performance obligations, milestones and benchmarks. These include the majority of the National Partnership (NP) Agreements. These funding arrangements fall within the scope of AASB 15 (where there is an enforceable contract with sufficiently specific performance obligations and goods and services are transferred to a customer) or AASB 1058 (residual approach).

The agreement components should be separated, and sufficiently specific performance obligations are recognised in accordance with AASB 15 with any residual component being accounted for in accordance with AASB 1058.

For these grants, a liability needs to be recognised for the amount of Commonwealth funding received for which the performance obligations remain unsatisfied.

C1.2 EXISTING PROCESSES

Commonwealth funding agreements are signed between the Territory (Chief Minister) and the Commonwealth. Commonwealth funds are largely received by the Chief Minister, Treasury and Economic Development Directorate (CMTEDD) and recognised as revenue on behalf of the Territory at the time of receipt, as CMTEDD administers the grants on behalf of the Territory (i.e. it is not controlled). The amount received is immediately transferred to the Territory Banking Account (TBA). CMTEDD Territorial recognises an expense and the TBA recognises revenue for the amount transferred. The Commonwealth funding is then on passed to the relevant ACT Government agency in the form of appropriation.

Appropriations are allocated to agencies under the *Financial Management Act 1996*. Appropriation is for a purpose (‘reasonably considered to be within the usual responsibilities and ordinary business of an entity’) and the Directors-General have the discretion to manage the appropriation within that purpose. Controlled Recurrent Payment appropriation (CRP) and Expenses on Behalf of the Territory appropriation (EBT) are recognised as revenues and Capital injection appropriation is recognised as equity contribution in the agencies. Appropriations are provided from the TBA to agencies on a cash needs basis. Appropriation drawn does not identify appropriation funded from Commonwealth funds/Territory.

Commonwealth SPP and NP funding received is acquitted annually (receipts vs expenditure) and the process is coordinated centrally by CMTEDD.

C1.3 APPROACH

A liability shall be recognised in CMTEDD Territorial for the amount of Commonwealth funding received for which the performance obligations have not yet been performed.

Given CMTEDD receives the funding and recognises it as revenue on behalf of the Territory, if the liability is not recognised here, CMTEDD's territorial revenue (as well as the consolidated revenue at the Territory level) would be overstated. Also, in the event that underlying obligations are not performed and the associated funding needs to be refunded to the Commonwealth, it is CMTEDD Territorial as recipient of the funds on behalf of the Territory, which would be obliged to return the funding to the Commonwealth.

It is acknowledged that it is the relevant delivering agency e.g. TCCS that performs the obligations specified in the Commonwealth funding agreement, not CMTEDD. However, the delivering agency does not receive the funds directly and has no control over the Commonwealth funding until it receives appropriation, drawn down according to its payment requirements. There is usually no advance payment of appropriation to agencies and therefore no deferred revenue liability (contract liability). Also, the timing of receipt of the Commonwealth funds can be different to the timing of drawdown of appropriation by the relevant agency, sometimes even across financial years.

Further, capital injections are recognised as equity contributions, not revenue in agency books. There cannot be a revenue received in advance (contract liabilities) for equity contributions.

Proposed Journal Entries:
A deferred liability will be recognised in CMTEDD Territorial which represents the Territory's obligation to either fulfil its performance obligations or refund the funding received. In the event that the obligations are not performed by the Territory, the Commonwealth is likely to adjust this refund amount against its future grant payments to the Territory rather than requiring a cash refund from the Territory. Based on this it is considered appropriate that the amount of deferred liability in CMTEDD Territorial have a corresponding adjustment against the payable to TBA. Also, accounting for the deferred liability in CMTEDD Territorial against a receivable from the TBA is not appropriate given TBA cannot make payments to agencies except under an appropriation.

The proposed journals are provided at **Attachment A**.

PART D – EXPECTED IMPACT ON REVENUE ITEMS

Revenue	Assessment of Criteria	AASB	Impact	Recognition of Revenue
Appropriations – CRP, EBIT & Capital Injection (AASB 1058.B26-B27)	• CRP and EBIT appropriation is for the delivery of outputs, Capital Injection is equity contribution • Not sufficiently specific • D-G has discretion at entity level • Fortnightly drawdowns in accordance with requirements	1058	Unchanged	Per current policy - when entity gains control over funds (usually on receipt of funds)
General purpose grants	• Performance obligations not likely to be sufficiently specific (AASB 15 does not apply) • Funds retained for own use to further the entity's objectives (no customer)	1058	Unchanged	Per current policy - on receipt of funds
Commonwealth Grants -National Partnership Agreements (excluding capital grants)	• Performance obligations may be sufficiently specific • Transfer of goods or services to customer • Enforceable contract Commonwealth grant agreements even though usually state that they are not legally enforceable are considered enforceable given the commitments by both parties to comply with the terms and conditions in the agreement	15	Likely changed	If criteria met then recognition in accordance with the satisfaction of the performance obligations For Commonwealth grants received and recognised as revenue in CMTEDD Territorial, adjustments relating to revenue received in advance (contract liabilities) will be taken up in CMTEDD-Territorial
Commonwealth Grants - National Partnership Agreements (capital grants for example funding to construct specific infrastructure)	• Performance obligations likely to be sufficiently specific • Relate to the acquisition or construction of a specified non-financial asset • Asset to be retained for own use i.e. no transfer of goods and services to customer (AASB 15 does not apply)	1058	Likely changed	If criteria met then in accordance with the satisfaction of the performance obligations (and not on receipt of the funds) Initially recognise liability for the amount of grant received; recognise income as the obligations are satisfied (for example, as construction occurs)
User charges - generally relate to the provision of goods or services	• Performance obligations likely to be sufficiently specific • Transfer of goods or services to customer • Enforceable contract	15	Likely unchanged	In accordance with the satisfaction of the performance obligations
Taxes and fines (AASB 1058.B28)	• No contract, revenue arising from statutory requirements • Performance obligations not sufficiently specific	1058	Unchanged	Per current policy - when taxable event occurs (mostly continue per current recognition policy)
Rates (AASB 1058 B28)	• When rates are pre-paid a contract liability needs to be created and converted to revenue when the taxable event occurs.	1058	Changed	Creation of a contract liability prior to the beginning of the rating year

Part D – Expected Impact on Revenue Items - continued

Expected Impact on Revenue Items				
Revenue	**Assessment of Criteria**	**AASB**	**Impact**	**Recognition of Revenue**
Non-refundable levies and licenses	• In the nature of taxes • No contract, revenue arising from statutory requirements • Performance obligations not sufficiently specific	1058	Unchanged	Per current policy – on the receipt of cash
Volunteer services (AASB 1058.B32)	• Fair value of the voluntary services received can be reliably estimated • Would have been purchased if not donated	1058	Unchanged	Currently no significant volunteer services are recognised
Peppercorn/ concessionary leases	• Consideration significantly less than the fair value Asset principally to enable entity to further its objectives	16 and 1058	Unchanged – additional disclosure requirements exist (Aus59.1) – see section 14	Per current policy - AASB 2018-8 provides temporary relief to not apply the fair value initial measurement, and instead measure at cost, right-of-use assets arising under peppercorn leases principally to enable the entity to further its objectives
Interest and dividends	Out of Scope of AASB 15 and AASB 1058	9	Unchanged	Per current policy

PART C - ATTACHMENT A

Proposed Option for Recognising Deferred Revenue for Commonwealth Grants Received into CMTEDD Territorial

Example: During the year, CMTEDD receives a grant of $1000 from the Commonwealth under a National Partnership Agreement with very specific obligations.

During the same year, the relevant agency that undertakes the necessary work underlying the agreement (e.g. TCCS), completes 40% of the work.

The work is fully funded by CW grants.

CMTEDD (Territorial)				TBA (Territorial)				Delivering Agency (e.g.TCCS)				Consolidated		
Existing Entries				**Existing Entries**				**Existing Entries**				**Existing Entries**		
Cash (Asset)	Ext	1,000										Cash (Asset)	Ext	1,000
Grants from CW (Revenue)	Ext	-1,000										Grants from CW (Revenue)	Ext	-1,000
Transfer to Govt Expense (Exp)	TBA	1,000		Cash (Asset)	Ext	1,000								
Cash Transfer to TBA (Asset)	Ext	-1,000		Transfers from Agency (Revenue)	CMTEDD	-1,000								
				Payments to Agency (CRP)	TCCS	400		Cash (Asset)	Ext	400				
				Cash (Asset)	Ext	-400		CRP Revenue	TBA	-400				
								Expenses	Ext	400		Expenses	Ext	400
								Cash (Asset)	Ext	-400		Cash (Asset)	Ext	-400

Part C - Attachment A Example continued

CMTEDD (Territorial)			TBA (Territorial)			Delivering Agency (e.g.TCCS)			Consolidated		
Additional Entries			**Additional Entries**			**Additional Entries**			**Additional Entries**		
Grants from CW (Revenue)	Ext	600							Grants from CW (Revenue)	Ext	600
Contract Liability	Ext	-600							Contract Liability	Ext	-600
Payable to TBA	TBA	600	Transfers from Agency (Revenue)	CMTEDD	600						
Transfer to Govt Expense (Exp)	TBA	-600	Receivable from CMTEDD	CMTEDD	-600						
Income Statement			**Income Statement**			**Income Statement**			**Income Statement**		
Grants from CW (Revenue)		-400	Transfers from Agency (Revenue)		-400	CRP Revenue		-400	Grants from CW (Revenue)		-400
Transfer to Govt Expense (Exp)		400	Payments to Agency (CRP)		400	Expenses		400	Expenses		400
Operating Result		*0*	*Operating Result*		*0*	*Operating Result*		*0*	*Operating Result*		*0*
Balance Sheet			**Balance Sheet**			**Balance Sheet**			**Balance Sheet**		
Cash (Asset)		0	Cash (Asset)		600	Cash (Asset)		0	Cash (Asset)		600
Payable to TBA		600									
Contract Liability		-600	Receivable from CMTEDD		-600				Contract Liability		-600
Net Assets		*0*	*Net Assets*		*0*	*Net Assets*		*0*	*Net Assets*		*0*