

AASB 15 & 1058 : Revenue

Alastair Abbott | January 2023

AUSTRALIAN AUDIT

1

Alastair Abbott
CA, B.Comm., GradDipCA, M. Forensic Accounting, MAICD, Registered Company Auditor, Registered Self-Managed Super Fund Auditor.

- ▶ Joined **Australian Audit** in 2008, rising to position of Director in 2014
- ▶ Completed his undergraduate studies at the University of Western Australia followed by the **Chartered Accounting** program.
- ▶ Completed a **Masters of Forensic Accounting** through the University of Wollongong.
- ▶ Has broad experience across all types of audits, from the smaller trust accounts, variable outgoings and strata companies through to financial statement audits for large companies, charities and financial service licensees.
- ▶ Volunteers on the board of multiple charities

Alastair@ausaudit.com.au | 08 9218 9922

AUSTRALIAN AUDIT

2

Disclaimer

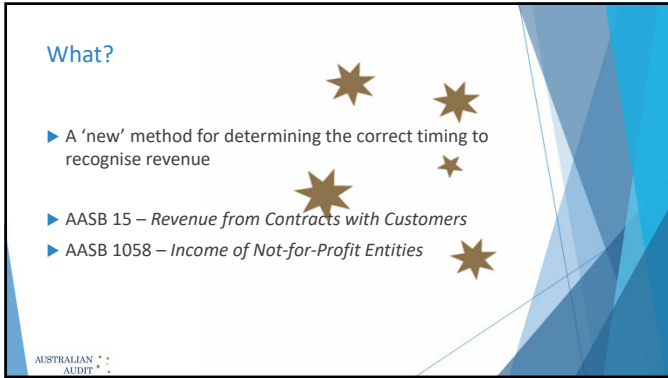
- ▶ This presentation is for your general information only, and should not be taken as specific financial or business advice. You should not act, or refrain from acting, on the basis of this presentation alone, without seeking specific advice from your advisers.
- ▶ Nevertheless, this presentation has been carefully prepared based on the information available at the time of the presentation.

AUSTRALIAN AUDIT

3

What?

- ▶ A 'new' method for determining the correct timing to recognise revenue
- ▶ AASB 15 – *Revenue from Contracts with Customers*
- ▶ AASB 1058 – *Income of Not-for-Profit Entities*



Australian Accounting Standards logo featuring seven gold stars of varying sizes arranged in a pattern similar to the Australian flag, set against a background of blue geometric shapes.

4

Who?

- ▶ Entities applying Australian Accounting Standards
 - ▶ General purpose
 - ▶ (compliant) Special Purpose
- ▶ For-profit & Not-for-profit

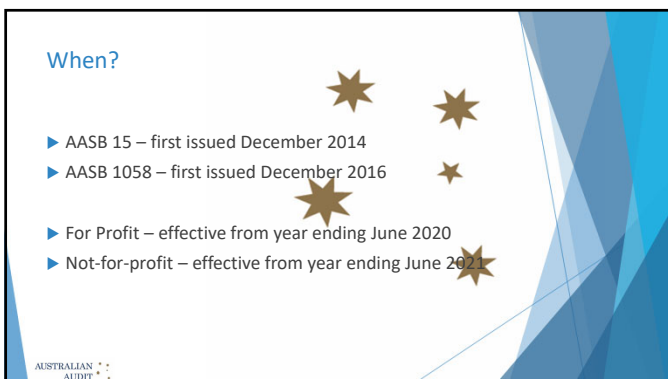


Australian Accounting Standards logo featuring seven gold stars of varying sizes arranged in a pattern similar to the Australian flag, set against a background of blue geometric shapes.

5

When?

- ▶ AASB 15 – first issued December 2014
- ▶ AASB 1058 – first issued December 2016
- ▶ For Profit – effective from year ending June 2020
- ▶ Not-for-profit – effective from year ending June 2021



Australian Accounting Standards logo featuring seven gold stars of varying sizes arranged in a pattern similar to the Australian flag, set against a background of blue geometric shapes.

6

Why?

- ▶ Provide clearer guidance
- ▶ Increase comparability across entities & jurisdictions
- ▶ Simplify preparation of financial statements



AASB logo and decorative stars

7

Two day plan

- ▶ AASB 15
 - ▶ Summary
 - ▶ Examples
- ▶ AASB 1058
 - ▶ Summary
 - ▶ Examples



AASB logo and decorative stars

8

AASB 15 – Revenue from Contracts with Customers

- ▶ The basis for the new standard is a **5-step model**. This requires organisations to consider:
 - ▶ whether a **contract exists**
 - ▶ the explicit and implicit **promises in the contract** to deliver goods and/or services to a customer
 - ▶ the **transaction price** payable by the customer
 - ▶ how to **allocate** the transaction price to the goods and services, and
 - ▶ when to recognise revenue based on when **“control”** over the good or service transfers to a customer.
- ▶ The concept of **control** replaces the existing requirements to consider when the **“risks and rewards”** pass to the customer as the trigger point to recognise revenue.



AASB logo and decorative stars

9

Revenue Recognition - 5 step process

- 1) Identify the contract with the customer
- 2) Identify performance obligations
- 3) Determine transaction price
- 4) Allocate transaction price
- 5) Recognise revenue

AUSTRALIAN AUDIT

10

1) Identify the contract

- ▶ Contract approved & parties are committed to perform obligations
- ▶ Identifiable rights
- ▶ Identifiable payment terms
- ▶ Commercial substance
- ▶ Probable consideration (intention & ability of customer to pay when due)

(is a contract register maintained?)

AUSTRALIAN AUDIT

11

2) Identify the performance obligations

- ▶ Identify as a performance obligation **each promise to transfer to the customer:**
 - ▶ a **good or service** (or a bundle of goods or services) that is distinct
 - ▶ a **series of distinct goods or services** that are substantially the same and that have the same pattern of transfer to the customer

AUSTRALIAN AUDIT

12

Sufficiently specific criterion

- ▶ Judgement will be necessary in assessing whether a promise is 'sufficiently specific', taking into account any conditions specified in the arrangement (whether explicit or implicit)
- ▶ regarding the promised goods or services, including conditions regarding:
 - ▶ the nature or type of the goods or services
 - ▶ the cost or value of the goods or services
 - ▶ the quantity of the goods or services
 - ▶ the period over which the goods or services must be transferred

AUSTRALIAN AUDIT

13

Non-refundable up-front fees

- ▶ Does the non-refundable up-front fee relate to a separate performance obligation?
 - ▶ Activities that must be undertaken to fulfil a contract but do not result in transfer of goods / services to a customer are not performance obligations.
 - ▶ Advance payment for future goods / services is not a performance obligation.
- ▶ Consider:
 - ▶ Joining fees
 - ▶ Waitlist fees
 - ▶ Set-up / registration fees

AUSTRALIAN AUDIT

14

3) Determine transaction price

- ▶ the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer
- ▶ The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both

AUSTRALIAN AUDIT

15

Variable consideration

- ▶ **The expected value**—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts.
- ▶ **The most likely amount**—the most likely amount is the single most likely amount in a range of possible consideration amounts

AUSTRALIAN AUDIT

16

4) Allocate transaction price

- ▶ Objective to **allocate the transaction price** to each **performance obligation** (or distinct good or service) in an amount that depicts the amount of **consideration** to which the **entity expects to be entitled** in exchange for transferring the promised goods or services to the customer.
- ▶ Determining **stand alone selling price**
 - ▶ Adjusted market approach
 - ▶ Cost plus margin approach
 - ▶ Residual approach

AUSTRALIAN AUDIT

17

5) Recognise revenue

- ▶ Recognise revenue as each performance obligation is satisfied
 - ▶ Point in time
 - ▶ Satisfied over time

AUSTRALIAN AUDIT

18

Contract asset and liability

- ▶ Costs to obtain a contract
 - ▶ Not incurred if contract not won, will be recovered
 - ▶ sales commission but not tender writing
- ▶ Costs to fulfil a contract
 - ▶ Relate directly to contract
 - ▶ Generate or enhance resources used in performance obligations
 - ▶ Will be recovered
- ▶ Contract liability
 - ▶ Receive cash in advance of performance

AUSTRALIAN AUDIT

19

Goods and services are not distinct

- ▶ A contractor, enters into a contract to build a hospital for a customer
- ▶ The contractor is responsible for the overall management of the project and identifies various goods and services to be provided, including engineering, site clearance, foundation, procurement, construction of the structure, piping and wiring, installation of equipment and finishing.
- ▶ the contractor's promise to transfer individual goods and services in the contract are not separately identifiable from other promises in the contract.

AUSTRALIAN AUDIT

20

Distinct goods or services

- ▶ A software developer, enters into a contract with a customer to transfer a software license, perform an installation service and provide unspecified software updates and technical support for a two-year period
- ▶ the developer identifies four performance obligations in the contract for the following goods or services:
 - ▶ (a) the software license;
 - ▶ (b) an installation service;
 - ▶ (c) software updates; and
 - ▶ (d) technical support.

AUSTRALIAN AUDIT

21

Making goods or services available

- ▶ An owner and manager of health clubs, enters into a contract with a customer for one year of access to any of its health clubs.
- ▶ The customer has unlimited use of the health clubs and promises to pay \$100 per month.
- ▶ The entity determines that its promise to the customer is to provide a service of making the health clubs available for the customer to use as and when the customer wishes. This is because the extent to which the customer uses the health clubs does not affect the amount of the remaining goods and services to which the customer is entitled.

AUSTRALIAN AUDIT

22

Software developer example

Obligation	Direct costs	% of contract	Allocation of contract price	Recognition basis
Software license	\$10,000	50%	\$20,000	Point in time
Installation	\$3,000	15%	\$6,000	Point in time
Software updates	\$2,000	10%	\$4,000	Over time
Technical support	\$5,000	25%	\$10,000	Over time
Total	\$20,000		\$40,000	

AUSTRALIAN AUDIT

23

AASB 1058 – Income of Not-for-Profit Entities

- ▶ This Standard establishes principles for not-for-profit entities that apply to:
 - ▶ (a) transactions where **the cost of acquiring an asset is significantly less than fair value of that asset principally to enable a not-for-profit entity to further its objectives.** E.g.
 - ▶ You receive a cash grant to further your objectives without specific service obligations
 - ▶ You receive the use of a property without specific service obligations
 - ▶ (b) the **receipt of volunteer services.**

AUSTRALIAN AUDIT

24

AASB 1058 – Income of Not-for-Profit Entities

- ▶ This better communicates the full extent of subsidy that Not for Profits receive.
- ▶ One argument is that this will enable donors and funders to better allocate scarce funding resources.

AUSTRALIAN AUDIT

25

Where a NFP receives an asset for significantly less than its fair value to further its objectives

- ▶ it recognises the asset in accordance with the relevant standard then considers the relevant accounting standard that applies to the other side of the entry (called 'related amounts').
- ▶ The other side of the entry could be, for example:
 - ▶ revenue or a contract liability (AASB 15)
 - ▶ a lease liability (AASB 16 Leases)
 - ▶ a financial instrument (AASB 9 Financial Instruments)
 - ▶ a provision (AASB 137 Provisions, Contingent Liabilities and Contingent Assets)
- ▶ The difference (if any) between the consideration paid and the fair value of the asset received after recording any 'related amounts' is recognised as income.

AUSTRALIAN AUDIT

26

Peppercorn leases

- ▶ **Optional** fair value of right of use asset
- ▶ Significant income in first year
- ▶ Ongoing expenses in subsequent years

AUSTRALIAN AUDIT

27

Volunteer services

- ▶ "Any not-for-profit entity may, as an **accounting policy choice**, elect to recognise volunteer services, or a **class of volunteer services**, if the fair value of those services **can be measured reliably**, whether or not the services would have been purchased if they had not been donated."
- ▶ The fair value of volunteer services provided by a Board member may be estimated at \$15,000 be annum by such providers as Salary-One Pty Ltd.
- ▶ With a Board of ten members, the annual fair value contribution would be measured at \$150,000.
- ▶ The accounting entries for the year would be:

▶ Dr Board member expenses	\$150,000
▶ Cr Board member donations	\$150,000

AUSTRALIAN AUDIT

28

AASB 1058 on Grants & Service Agreements

- ▶ Grants and Service agreements must be analysed into two groups:
- ▶ Those which have contracts with **enforceable rights and specific obligations**
 - ▶ This will require the application of AASB 15 to determine when revenue is recognised
- ▶ Those which do not have **enforceable rights or specific obligations**
 - ▶ This will require the application of AASB 1058 to determine when revenue is recognised

AUSTRALIAN AUDIT

29

AASB 1058 Grants for construction or acquisition of non-financial assets

- ▶ When a NFP receives a grant to construct a building to be controlled by the NFP, the funds received are initially recognised as a financial asset (cash) with a corresponding liability (obligation to construct the building).
- ▶ Subsequently, the liability is derecognised as the performance obligation is satisfied (i.e. as the construction of the building is completed).
- ▶ Income is recognised as the performance obligations are met

AUSTRALIAN AUDIT

30

Sufficiently Specific?

- ▶ NFP will employ 3 financial counsellors to each work 30 hours per week, from 1 July 20X1 to 30 June 20X2
- ▶ NFP will provide financial counselling services from 1 July 20X1 to 30 June 20X2

AUSTRALIAN AUDIT

31

Refund provisions

- ▶ For example, a grant agreement may require the funds provided to an entity to be spent only in a particular period, failing which repayment to the grantor will be required.
- ▶ As the entity has the discretion whether to spend funds received in advance of the specified period, a refund liability is not recognised unless the entity breaches the condition or a breach is expected.

AUSTRALIAN AUDIT

32

Donations, management intent and discretionary use

- ▶ Wells for Africa Ltd – Charities object is to build wells in Africa - 200 donations of \$800 each
- ▶ Donations are pledged – no income yet
- ▶ Donations are received – board decision to allocate to wells in Kenya – income on receipt
- ▶ Donations are received – campaign to build wells in Kenya - income on receipt
- ▶ Donations are received - campaign to build wells in Kenya - refundable if not used – contract liability, income on construction

AUSTRALIAN AUDIT

33

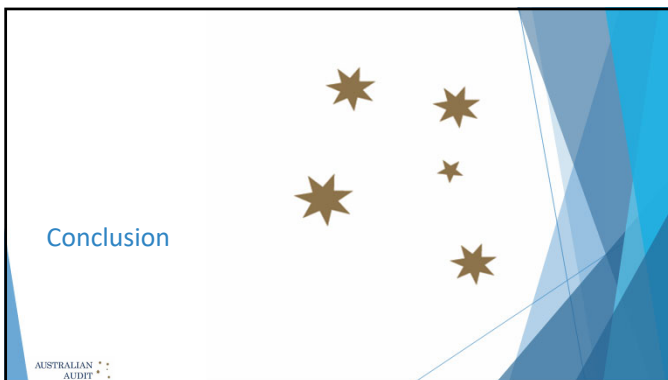
Multi-year grant contracts

- ▶ Cash in advance
- ▶ Cash received in instalments
- ▶ Sufficiently specific performance objectives?



34

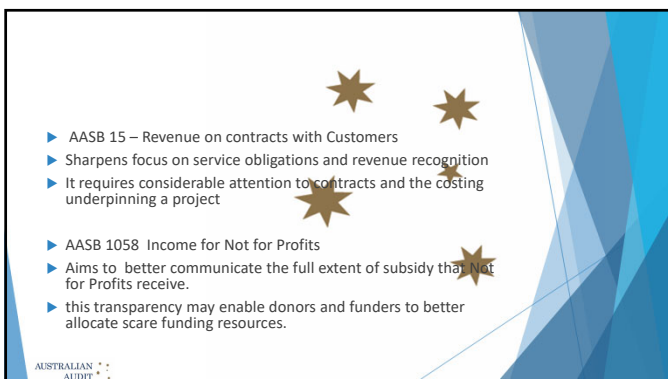
Conclusion



35

- ▶ AASB 15 – Revenue on contracts with Customers
- ▶ Sharpens focus on service obligations and revenue recognition
- ▶ It requires considerable attention to contracts and the costing underpinning a project

- ▶ AASB 1058 Income for Not for Profits
- ▶ Aims to better communicate the full extent of subsidy that Not for Profits receive.
- ▶ this transparency may enable donors and funders to better allocate scarce funding resources.



36



37



38
