What to expect from the new not-for-profit (NFP) accounting standards

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Disclaimer

• These materials are for reference purposes only and do not intend to constitute any form (in part or in full) of legal and/or professional advice.

• It is fundamental that participants read and understand the requirements of the standard when applying them to their own organisation/circumstances.

• All responses are of a general nature only.
New accounting standards

• AASB 15 Revenue from contracts with customers

• AASB 1058 Income of Not-for-Profit entities

• AASB 16 Leases
# Proposed ACNC revenue thresholds

<table>
<thead>
<tr>
<th>ACNC Registered</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current</strong></td>
<td>Less than $250,000</td>
<td>$250,000 to $1 million</td>
<td>$1 million or more</td>
</tr>
<tr>
<td><strong>Proposed</strong></td>
<td>Less than $1 million</td>
<td>$1 million to $5 million</td>
<td>$5 million or more</td>
</tr>
</tbody>
</table>
New reporting standards

• AASB 15 Revenue from contracts with customers

• AASB 1058 Income of Not-for-Profit entities
AASB 1004 Contributions

• Income recognition

• Upfront recognition & mismatch

• Deferral & Reciprocity
AASB 1004: Deferral & Reciprocity

Under AASB 1004, it must be a reciprocal transfer for the grant income to be deferred.
Example 1 Under AASB 1004

A state government provided funds to a not-for-profit organisation and the benefits when to the public at large.
Example 2 under AASB 1004

A University receives a grant related to the provision of a service to students over a period of time.

AASB 1004:

• *Grant recognised as income*
Under the new standards, the grant may be eligible for deferral when the grantor directs the benefits provided to the public/third parties.
AASB 15 Revenue from contracts with customers
Deferral income

• Enforceable obligation

• Sufficiently specific

• Liability
Examples: Sufficiently specific

• Scenario 1:
  A not-for-profit organisation receives funding to provide counselling services to the general public.

• Scenario 2:
  A not-for-profit organisation gets funding to provide 15 counselling sessions.
Further examples: Sufficiently specific

• Scenario 3:
  • A not-for-profit organisation receives funds to provide beds to the homeless.

• Scenario 4:
  • A not-for-profit organisation receives funds and the grantor specifies that the funds are to be used to provide 50 beds for the homeless.
AASB 15 Revenue from contracts with customers

1. Identify contract
2. Identify performance obligations
3. Determine the price
5. Recognise revenue when performance obligation is satisfied
AASB 1058  Income of Not-for-Profit entities
AASB 1058 Income for NFP entities

• Flips the upfront recognition of revenue

• Consider all other standards first
  • Is it a contribution by owners/members?
  • Is it revenue with a contract obligation?
  • Is it cash to repay a debt?

• Capital grants
Example: Asset at significantly less than fair value

A not-for-profit organisation receives an asset at significantly less than its fair value. For instance, say the organisation receives donated inventory.

• Donated inventory: AASB 102 Inventories
• Related amount:
  • Contributions by owners
  • Revenue / contract liability
  • Lease liability, etc.
Example: Grant for acquisition of non-financial asset

• Scenario 1

A not-for-profit organisation receives grant to construct a building over which it has control.
  • Fund received: cash
  • Obligation to construct the building: Liability

*Note: As the performance is satisfied, the liability is derecognised.*
Examples: Grants

• Scenario 2
A not-for-profit organisation receives a grant to acquire a specific asset.
   Recognise income when the relevant asset is acquired.

• Scenario 3
A not-for-profit organisation receives a research grant to develop its intellectual property
   Recognise income when the funds are obtained.
Bundled Items

• Some donations and some provision of goods/services
  • Charity Dinner
  • Branded items
Revenue recognition & deferral with bundled items

Question: Do you need to split the bundled item into donation and upfront revenue recognition?

- Whole amount is refundable
- Goods/service is not provided
- There is a non-refundable component
Transition: 1\textsuperscript{st} year

**Full Retrospective – Restate prior year**

- New Standard
  - New Standard

**Partial Retrospective**

- Old Standard
  - New Standard
- In notes: old standard

1 July 2018 | 1 July 2019 | 1 July 2020
The new standards......

• Better matching of revenue and related expenses.

• More assets will now be recorded in the balance sheet.
New standards

• Move from AASB 1004 Contributions to:
  • AASB 15
  • AASB 1058
AASB 16 Leases
AASB 16 Leases

• Lease:
  • Right to use an identified asset.
  • Exemptions:
    (1) Short term
    (2) Low value

• Operating Leases:
  • Building & office, Storage & equipment facilities, cars, car parks, mobile phones, computers, software licences, server capacity, pot plants, water coolers.

• Peppercorn leases
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