



NEW ACCOUNTING REQUIREMENTS FOR NFPS - AASB 15 AND AASB 1058

June 2019

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BDO



**2019 IS GOING TO BE A BIG YEAR FOR
NFP ENTITIES!**

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INTRODUCTION



OUTLINE OF THIS SESSION

- ▶ 1 January 2019 - The Clock is Ticking Down!
- ▶ AASB 15 *Revenue from Contracts with Customers*
- ▶ **AASB 1058 *Income of Not-for-Profit Entities***
- ▶ AASB 16 *Leases*, especially Peppercorn Leases
- ▶ Questions You Should Ask
- ▶ Next Steps
- ▶ Do you need assistance?

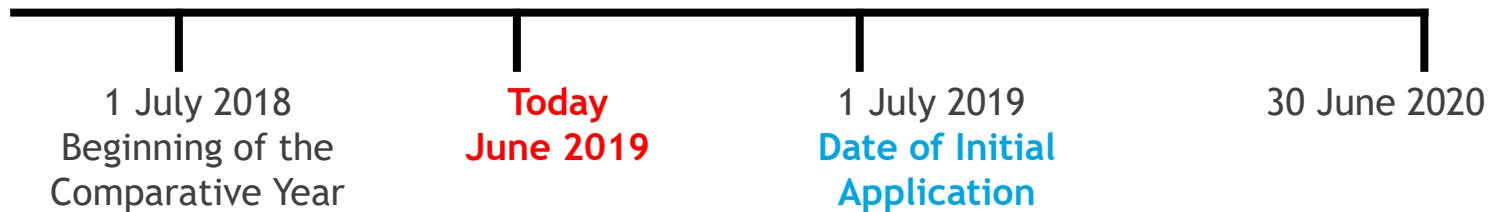
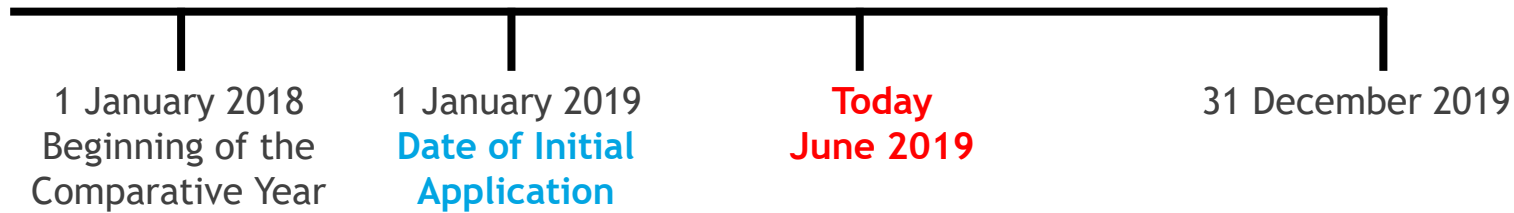
1 JANUARY 2019 - THE CLOCK IS TICKING DOWN!

NOT-FOR-PROFIT ENTITIES

Already
implemented

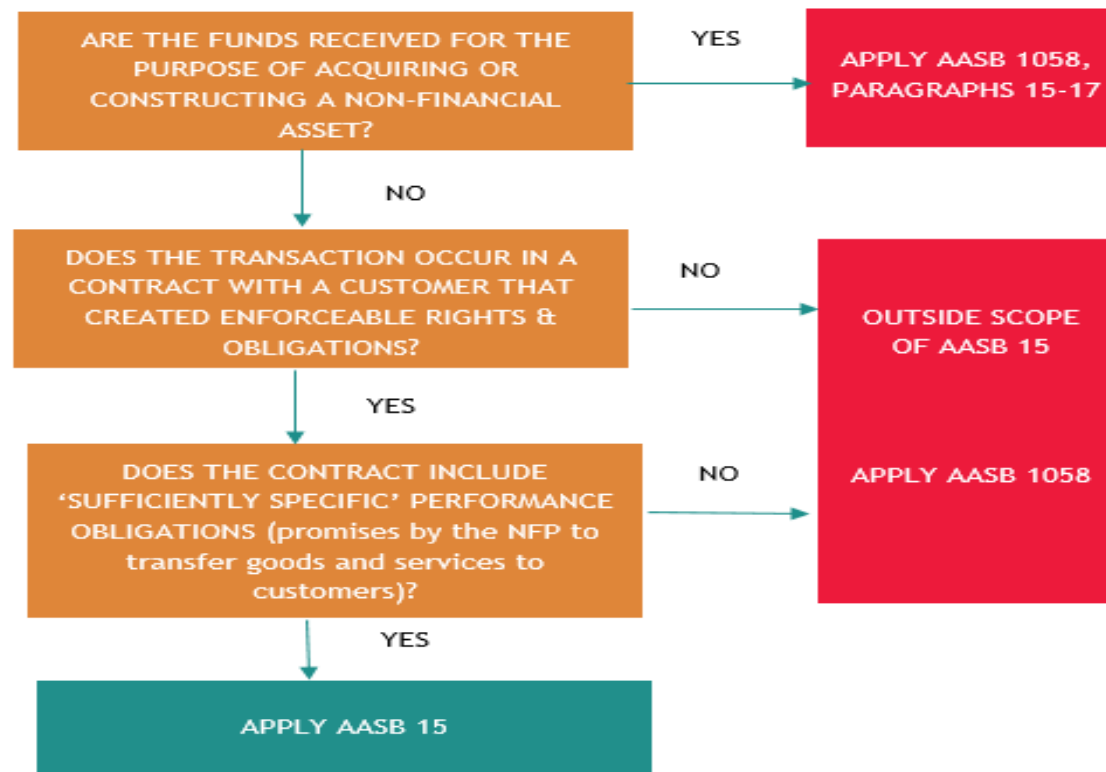
Accounting Standard	Effective Date - Years Beginning on or after ...	31 December Year-ends	30 June Year- ends
AASB 9 <i>Financial Instruments</i>	1 January 2018	31 December 2018	30 June 2019
AASB 15 <i>Revenue from Contracts with Customers</i>	1 January 2019	31 December 2019	30 June 2020
AASB 16 <i>Leases</i> , including peppercorn leases	1 January 2019	31 December 2019	30 June 2020
AASB 1058 <i>Income of Not-for-Profit Entities</i>	1 January 2019	31 December 2019	30 June 2020

WHY NOW?



AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

WHEN DOES AASB 15 APPLY TO NFP ENTITIES?



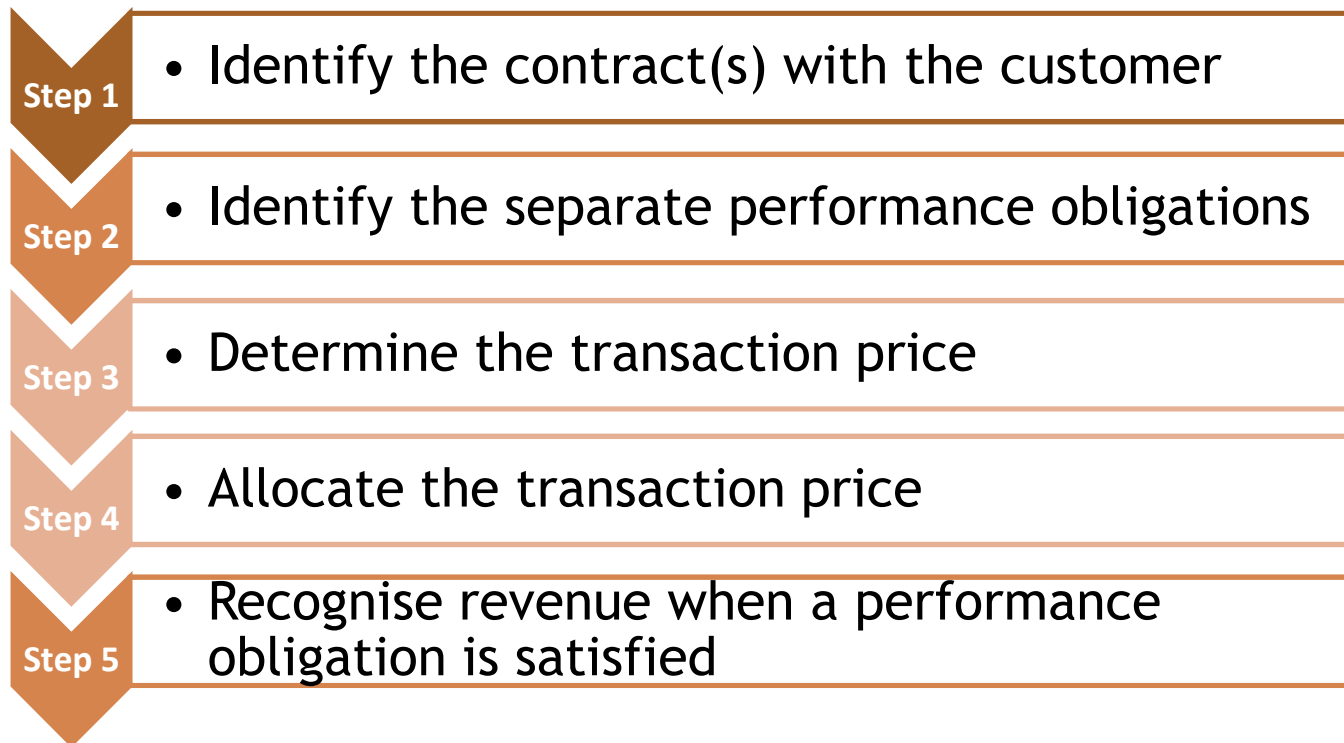
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CORE PRINCIPLE

Recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

* A customer is a party that has **contracted** with an entity to obtain goods or services that are an output of the entity's **ordinary activities** in exchange for consideration

FIVE STEPS TO APPLY THE CORE PRINCIPLE





MONTHLY FINANCIAL REPORTING WEBINARS RE AASB 15

▶ <https://www.bdo.com.au/en-au/insights/audit-assurance/webinars/2019-bdo-financial-reporting-and-accounting-standards-webinar-series>

▶ **2019** Webinars re IFRS 15

- February 2019: Practice Issues when implementing IFRS 15
- April 2019: Practical Issues when implementing AASB 1058 (NFP)
- July 2019: Disclosing impact of IFRS 15
- September 2019: Disclosing impact of AASB 1058 (NFP)
- October 2019: Lessons learned from implementing IFRS 15



MONTHLY FINANCIAL REPORTING WEBINARS RE AASB 15

▶ <https://www.bdo.com.au/en-au/insights/audit-assurance/webinars/2018-financial-reporting-accounting-standards>

▶ **2017 & 2018** Webinars re IFRS 15

- June 2017: Overview of IFRS 15
- July 2017: Identifying the Contract and Performance Obligations (IFRS 15)
- August 2017: Determining and Allocation Transaction Price (IFRS 15)
- February 2018: Transition to IFRS 15
- March 2018: Risk Assessment
- April 2018: Problem Areas



EXAMPLE 1 - ENDOWMENT MADE TO A UNIVERSITY

- ▶ On 30 June 2018, an alumnus transferred \$2 million cash to University A as an endowment
- ▶ Under the terms of the endowment:
 - The \$2 million cash can be invested at the university's discretion
 - University A is required to provide the annual scholarship for one student's accommodation for a defined period of 30 years. (Assume the expected cost of the annual scholarship over the next 30 years is \$1,850,000)
 - If the university breaches the terms of the endowment, the university is required to return the real value of the principal to the alumnus
- ▶ The entity's reporting date is 30 June



EXAMPLE 1 - ENDOWMENT MADE TO A UNIVERSITY

▶ Journal entry at 30 June 2018

- | | | |
|-------------------------|-------------|-------------|
| • Dr Cash | \$2,000,000 | |
| • Cr Contract liability | | \$1,850,000 |
| • Cr Income | | \$150,000 |

▶ Journal entry at 30 June 2019

- | | | |
|-------------------------|----------|----------|
| • Dr Contract liability | \$61,667 | |
| • Cr Income | | \$61,667 |
- (\$1,850,000 ÷ 30 years)



EXAMPLE 2 - MULTI-YEAR CASH GRANT

- ▶ The Local Government enters into an agreement with the State Government in the form of a Memorandum of Understanding (MoU) to receive a multi-year cash grant of \$90,000 from the State Government, which is received in full on 24 June 2018
- ▶ The grant is to fund education programs over three years commencing 1 July 2018, with the objective of increasing the literacy of students of a specific rural area
- ▶ The MOU outlines the agreed activities of education programs that are tailored to the literacy needs of the students. The Local Government is able to identify when its specific performance obligations are satisfied and expects to fulfil its promise to provide the agreed activities
- ▶ The State Government can enforce the repayment of the grant if the specified activities are not undertaken by requiring direct repayment or otherwise deducting unspent monies from future funding
- ▶ The entity's reporting date is 30 June



EXAMPLE 2 - MULTI-YEAR CASH GRANT

▶ Journal entry at 24 June 2018

- Dr Cash \$90,000
- Cr Contract liability \$90,000

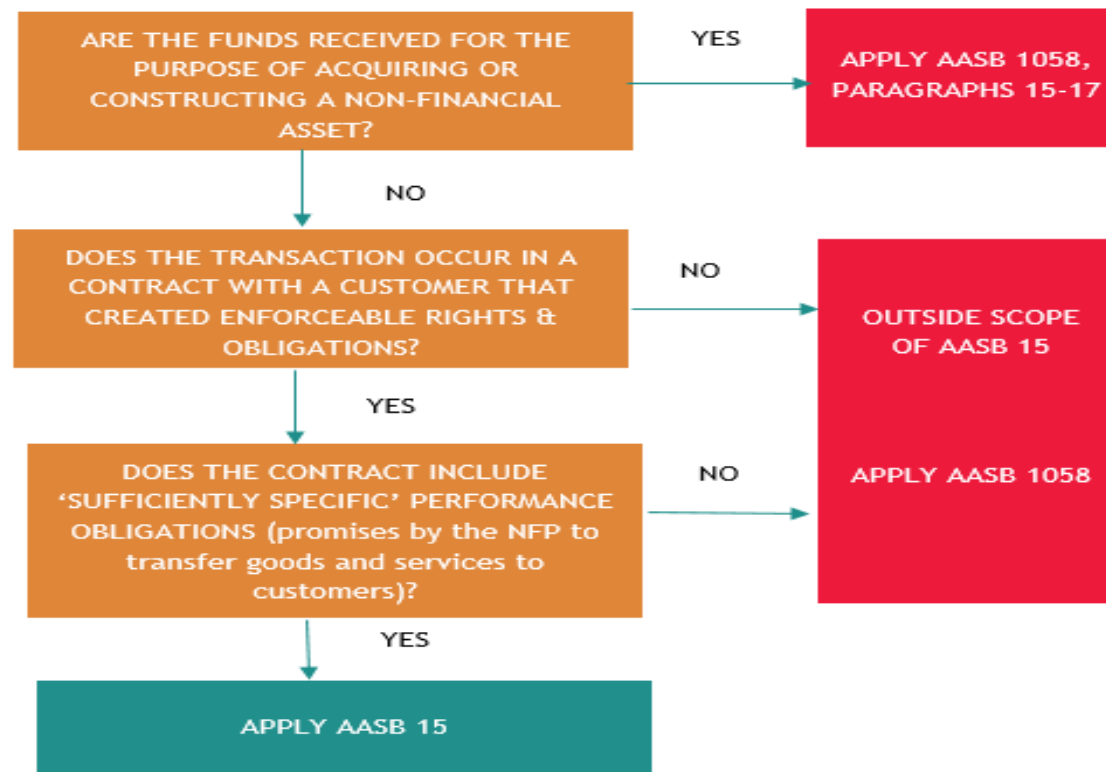
▶ Journal entry at 30 June 2019

- Dr Contract liability \$30,000
 - Cr Income \$30,000
- (\$90,000 ÷ 3 years)



AASB 1058 *INCOME OF NOT-FOR-PROFIT ENTITIES*

WHEN DOES AASB 15 APPLY TO NFP ENTITIES?





EXAMPLE 4 - CASH GRANT FOR THE CONSTRUCTION OF A RECOGNISABLE ASSET & INCOME RECOGNISED AT A POINT IN TIME

- ▶ The State Government makes a cash grant of \$100,000 to Hospital X to acquire 16 intensive care hospital beds that are to be controlled by the entity and used in its operations
- ▶ Six beds are acquired by the hospital in its first purchase, and the remaining ten beds in a second purchase
- ▶ Hospital X determines:
 - The \$100,000 grant is an asset Hospital X acquired for consideration that is significantly less than the fair value of the grant to further the objectives of the hospital
 - Accordingly, the grant is within the scope of AASB 1058 and it controls a financial asset (\$100,000) within the scope of AASB 9



EXAMPLE 4 - CASH GRANT FOR THE CONSTRUCTION OF A RECOGNISABLE ASSET & INCOME RECOGNISED AT A POINT IN TIME

- ▶ In accordance with paragraph 16 of AASB 1058, Hospital X recognises the grant initially as a liability at the point in time when it obtains control of the funds. Hospital X recognises income as it acquires and controls the hospital beds

EXAMPLE 4 - CASH GRANT FOR THE CONSTRUCTION OF A RECOGNISABLE ASSET & INCOME RECOGNISED AT A POINT IN TIME

► The journal entries for the accounting treatment are:

- Initial recognition

• Dr Cash	100,000	
• Cr Obligation		100,000

- First purchase

• Dr Obligation	37,500	
• Cr Income		37,500
• Dr Equipment - ICU	37,500	
• Cr Cash		37,500

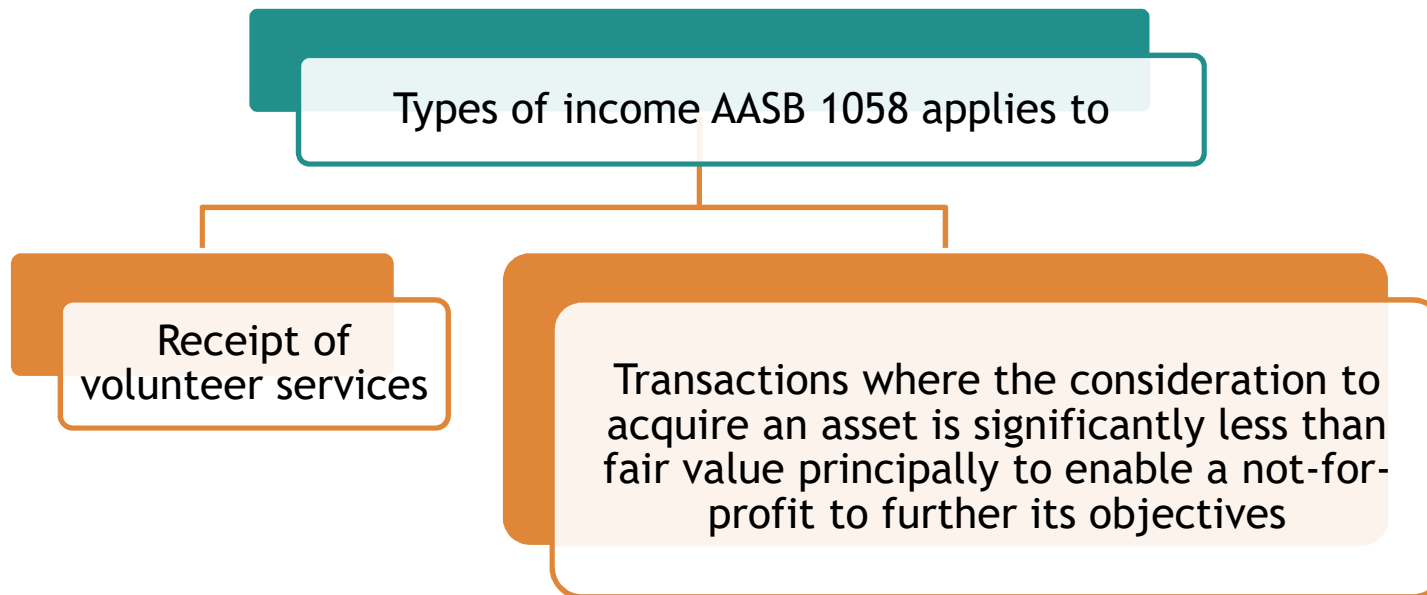
EXAMPLE 4 - CASH GRANT FOR THE CONSTRUCTION OF A RECOGNISABLE ASSET & INCOME RECOGNISED AT A POINT IN TIME

► The journal entries for the accounting treatment are:

- Second purchase
- Dr Obligation 62,500
- Cr Income 62,500
- Dr Equipment - ICU 62,500
- Cr Cash 62,500

AASB 1058 *INCOME OF NOT-FOR-PROFIT ENTITIES*

Scope of AASB 1058



TRANSACTIONS OTHER THAN VOLUNTEER SERVICES

Recognition and measurement principle

Asset (A)	'Credit' (B)	Excess of (A) over (B)
Where applicable, account for in accordance with other Australian Accounting Standards	Where applicable, account for in accordance with other Australian Accounting Standards	Excess recognised <u>immediately</u> in profit or loss
AASB 1058, paragraph 8	AASB 1058, paragraph 9	AASB 1058, paragraph 10



EXAMPLE 5 - MULTI-YEAR CASH GRANT

- ▶ The Local Government enters into an agreement with the State Government in the form of a Memorandum of Understanding (MoU) to receive a multi-year cash grant of \$90,000 from the State Government, which is received in full on 24 June 2018
- ▶ The grant is to fund education programs over three years commencing 1 July 2018, with the objective of increasing the literacy of students of a specific rural area
- ▶ The MoU does not specify the activities the grant must be used for, other than an education program to increase literacy in a particular area
- ▶ The State Government can enforce the repayment of the grant if the entity does not apply the funds to relevant education programs
- ▶ The entity's reporting date is 30 June



EXAMPLE 5 - MULTI-YEAR CASH GRANT

► Journal entry at 24 June 2018

- Dr Cash \$90,000
- Cr Income \$90,000



IFRS 16 *LEASES*

THE BIG CHANGE FOR LESSEES

The end of the road for operating leases!





PEPPERCORN LEASES

Amendment to new AASB 16 *Leases*

- Where the lessee is a NFP entity and the lease has significantly below-market terms and conditions principally to enable the entity to further its objectives, the NFP entity **shall**:
 - Measure the right-of-use asset at fair value;
 - Measure the lease liability at the present value of the lease payments that are not paid at that date; and
 - Recognise any related items in accordance with AASB 1058 (potentially income?)
- **However, also consider the latest developments at the AASB re peppercorn leases**



EXAMPLE 7 - LEASE

- School A enters a 30 year lease with a lessor for the use of a building
- The lease contract specifies lease payments of \$100 per annum
- At the inception of the lease, the entity assesses the terms and conditions of the lease, including restrictions, and determines the fair value of the right to use the facility for 30 years is \$360,000
- The leased premises must be used to provide education services, or else School A will no longer be able to use the facility
- There are no other conditions specified in the lease contract
- Assume the NPV of the future lease payments discounted at School A's incremental borrowing rate of 5% per annum is \$1,537



EXAMPLE 7 - LEASE

- The journal entry on initial recognition is:

- Dr Right-of-use asset	\$360,000	
- Cr Lease liability		\$1,537
- Cr Income		\$358,463
- However, also consider the latest developments at the AASB re peppercorn leases



LATEST DEVELOPMENT - AASB ISSUED AASB 2018-8 IN DECEMBER 2018

- However, the AASB has decided to provide a temporary option for not-for-profit entities to **not** measure a class or classes of such right-of-use assets at initial recognition at fair value, since further guidance is expected to be developed to assist not-for-profit entities in measuring right-of-use assets at fair value
- The temporary option would also avoid requiring not-for-profit private sector entities at the lower level of the reporting thresholds to apply the fair value initial measurement requirements of AASB 16 when they might not be required to apply these requirements in the future as a result of recommendations of the ACNC Legislative Review



DEFERRAL OF REQUIREMENT TO FAIR VALUE PEPPERCORN LEASES

How long will the temporary deferral option remain?

- Deferral option expected to remain in place until guidance has been developed for fair-valuing right-of-use assets (i.e. with restrictions) and the financial reporting requirements for private sector NFPs have been finalised

How will entities apply this deferral option in their 2019 financial statements?

- Measure the ROU asset at the present value of payments (usually an insignificant amount)
- Additional disclosure required to ensure users understand effects of the peppercorn lease on the financial performance, financial position and cash flows of the entity

QUESTIONS YOU SHOULD CONSIDER ASKING



QUESTIONS YOU SHOULD CONSIDER ASKING

- ▶ How do these accounting standards impact the profit/surplus of the organisation in year of implementation and thereafter?
- ▶ How do these accounting standards impact the balance sheet position (assets, liabilities & equity) of the organisation in the year of implementation and thereafter?
- ▶ How have we updated and incorporated these new accounting standards into our budgets and forecasts?
- ▶ Would the organisation be able to continue to meet their current bank covenants?



QUESTIONS YOU SHOULD CONSIDER ASKING

- ▶ Should the organisation renegotiate their bank covenants to minimise the potential impact of the new accounting standards on their current bank covenants?
- ▶ What is the impact of the new accounting standards on current remuneration structures and incentives to key management personnel and other employees?
- ▶ Does the organisation need to adjust performance hurdles and KPIs of key management personnel and other employees, to reflect the impact of the new accounting standards?
- ▶ How are we going to communicate the immediate and future impact of the new accounting standards users of our financial statements?



QUESTIONS YOU SHOULD CONSIDER ASKING

- ▶ Has the organisation performed and documented an impact and/or risk assessment of the implementation of the new accounting standards?
- ▶ Does the organisation have documented position papers to support and justify the appropriate accounting treatment of existing transactions under the new accounting standards?
- ▶ Has the organisation updated their accounting policy manual to reflect the requirements of the new accounting standards?
- ▶ Has the organisation obtained independent accounting advice in relation to the implementation of the new accounting standards?



QUESTIONS YOU SHOULD CONSIDER ASKING

- ▶ Have the auditors of the organisation been involved in the discussions and impact assessment of the new accounting standards on the organisation?
- ▶ What research has been done on the potential impact of the new accounting standards on the organisation's industry?
- ▶ Has the organisation considered their technology needs and required changes to their existing systems and processes to deal with the new accounting standards?
- ▶ How can the directors access further information on the requirements and potential implications of the new accounting standards?



NEXT STEPS



NEXT STEPS

- ▶ AASB 15 & AASB 1058
 - Do you receive government grants?
 - What other funding do you receive?
 - Schools - Application fees & enrolment fees?

- ▶ AASB 16 & Peppercorn Leases
 - Do you have copies of all your leases?
 - Do you have all the data to perform the AASB 16 calculations?
 - Do you have a technology solution?





NEXT STEPS

- ▶ Have you educated yourself and your team re the technical requirements of these 3 new accounting standards?
- ▶ Have you done a risk assessment re each of these 3 accounting standards?
- ▶ Have you designed an appropriate response to the completed risk assessment re each of the 3 accounting standards?
- ▶ Have you designed a **project plan** re the implementation of these 3 accounting standards?
- ▶ Have you decided on an appropriate **transitional approach** re each of the 3 accounting standards?
- ▶ Have you changed and improved your systems and processes to deal with the 3 new accounting standards?



NEXT STEPS - IMPACT ASSESSMENT

- ▶ Current accounting treatment
 - Timing of income recognition
 - Amount of revenue recognised
- ▶ New accounting treatment
 - Timing of income recognition
 - Amount of revenue recognised
- ▶ Impact
 - How does the timing and amount of revenue recognition change?

NEXT STEPS - EXAMPLE OF IMPACT ASSESSMENT

	YE 2019	YE 2020	YE 2021
Impact on P & L			
Current	175,000	125,000	75,000
Proposed	375,000	-	-
Difference	200,000	(125,000)	(75,000)
	YE 2019	YE 2020	YE 2021
Impact on SoFP			
Current - Cash	175,000	125,000	75,000
Proposed - Cash & Trade Receivable	375,000	-	-
Difference	200,000	(125,000)	(75,000)



DO YOU NEED ASSISTANCE?



MONTHLY FINANCIAL REPORTING WEBINARS

- ▶ <https://www.bdo.com.au/en-au/insights/audit-assurance/webinars/2019-bdo-financial-reporting-and-accounting-standards-webinar-series>
- ▶ March 2017 - The New AASB 1058 *Income of Not-for-Profit Entities*





NEWSLETTERS & OTHER PUBLICATIONS

- ▶ <https://www.bdo.com.au/en-au/accounting-news/accounting-news-february-2019/performance-obligations-nfps>
- ▶ <https://www.bdo.com.au/en-au/accounting-news/accounting-news-march-2019/aasb-issues-two-new-faqs>
- ▶ <https://www.bdo.com.au/en-au/accounting-news/accounting-news-april-2019/grants-to-nfps>
- ▶ <https://www.bdo.com.au/en-au/services/audit-assurance/ifrs-advisory-services/ifrs-technical-resources>



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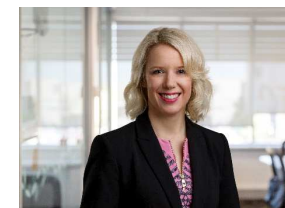


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QUESTIONS



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