



# AASB 1058 INCOME OF NOT-FOR-PROFIT ENTITIES

## FACT SHEET

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This fact sheet is based on existing requirements as at 21 June 2017 and it does not take into account recent standards and interpretations that have been issued but are not yet effective.

### **IMPORTANT NOTE**

**This standard is an Australian specific standard with no international equivalent.  
The application date included below is the effective date of the initial version of the standard.**

## AASB APPLICATION DATE

AASB 1058 is applicable for annual reporting periods commencing on or after 1 January 2019.

## SCOPE

AASB 1058 applies to transactions of not-for-profit (NFP) entities 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, except the following:

- a. share-based payment transactions within the scope of AASB 2 *Share-based Payment*;
- b. business combinations within the scope of AASB 3 *Business Combinations*;
- c. insurance contracts within the scope of AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* or AASB 1038 *Life Insurance Contracts*;
- d. licences outside the scope of AASB 15 *Revenue from Contracts with Customers*;
- e. income taxes within the scope of AASB 112 *Income Taxes*; and
- f. restructures of administrative arrangements within the scope of AASB 1004 *Contributions*.

AASB 1058 supersedes the existing requirements in AASB 1004 *Contributions*. AASB 1004 continues to be in force, however its scope has now been reduced to only cover issues specific to government departments and contributions by owners in the public sector.

## NFP INCOME RECOGNITION MODEL

Under the new income recognition model, a NFP first considers whether AASB 15 applies to a transaction or part of a transaction. In order for AASB 15 to apply to a transaction, the performance obligation(s) arising from the transaction needs to be 'sufficiently specific' and 'enforceable'.

Where AASB 15 does apply to a transaction or part of a transaction, the NFP applies the general AASB 15 principles to determine the appropriate revenue recognition.

When AASB 15 does not apply to a transaction or part of a transaction, the NFP then considers whether AASB 1058 applies. AASB 1058 will apply when a NFP:

- enters into a transaction where the consideration to acquire an asset is significantly less than fair value principally to enable the NFP to further its objectives; and
- receives volunteer services (recognition of volunteer services is only mandatory to entities in the public sector).

Transactions include those where the entity acquires or receives an asset (including cash) in exchange for no consideration. Examples include cash grants received by an entity or taxes and rates received by governments, to further their objectives.

## NFP APPLICATION GUIDANCE IN APPLYING AASB 15

The content of AASB 15, which incorporates IFRS 15 *Revenue from Contracts with Customers* issued by the International Accounting Standards Board, is generally expressed from the perspective of for-profit entities in the private sector. To assist the NFP sector in applying AASB 15 principles, particularly in circumstances where a for-profit perspective does not readily translate to a NFP perspective, the AASB has added NFP application guidance and illustrative examples as an appendix to AASB 15.

As noted earlier, in order for AASB 15 to apply to a NFP transaction, there are two critical elements that need to be satisfied:

- the agreement between two or more parties must create 'enforceable' rights and obligations;
- the NFP entity's promise to transfer a good or service needs to be 'sufficiently specific'.

### **Enforceability criterion**

The determination of whether the performance obligation is 'enforceable' and 'sufficiently specific' is a matter of judgement, having regard to the particular facts and circumstances.

The new application guidance clarifies that, in the NFP context, a 'contract' is an agreement between two or more parties that creates 'enforceable' rights and obligations. An agreement is typically enforceable by another party through legal or equivalent means if the agreement is in writing and includes sufficiently specific requirements of the parties. Oral agreements may also be enforceable. Enforceability depends solely on the customer's capacity to enforce its rights. 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 all constitute enforceable agreements; a formal contract is not required.

### **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; and
- the period over which the goods or services must be transferred.

## INCOME RECOGNITION

Under AASB 1058, the timing of income recognition will depend on whether a transaction gives rise to a performance obligation, liability or contribution by owners.

Where a NFP receives an asset for significantly less than its fair value principally to enable the NFP to further its objectives, it recognises the asset in accordance with the relevant standard (e.g. donated inventory is recognised in accordance with AASB 102 *Inventories*). The NFP 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:

- contributions by owners (AASB 1004 if public sector, AASB 132 *Financial Instruments: Presentation* if private sector);
- revenue or a contract liability (AASB 15);
- a lease liability (AASB 16 *Leases*);
- a financial instrument (AASB 9 *Financial Instruments*); or
- a provision (AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*).

The difference (if any) between the consideration transferred for the asset and the fair value of the asset received after recording any 'related amounts' is recognised as income.

### Grants for construction or acquisition of non-financial assets

AASB 1058 includes specific requirements with respect to grants received under enforceable agreements for construction or acquisition of recognisable 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).

Where a NFP receives a grant to acquire specific assets, it recognises income when the relevant assets are acquired. If a NFP receives a grant to develop an asset which does not satisfy the recognition criteria in other accounting standards (e.g. a research grant to develop the NFP's intellectual property), and there is no enforceable agreement, income is recognised when the funds are obtained.

### Donations

AASB 15, Appendix F includes a rebuttable presumption that the total transaction price in a contract with a customer is related to the transfer of the promised goods or services. This means that an NFP is not required to identify or recognise separately the donation component in a contract with a customer (i.e. the entity allocates the entire transaction price

to the performance obligations specified in the contract).

This presumption can be rebutted and the transaction price split into its component parts when the transaction price is only partially related to the transfer of the promised goods or services. The following may be indicative of an element that is not related to the promised goods or services:

- a non-refundable component of the transaction price; and
- where the entity has the status of a deductible gift recipient (DGR) – the donor can claim part of the transaction price as a tax deduction for a donation.

For example, let's assume a NFP sells subscriptions to an online database and invites subscribers to also make a donation to generally assist the NFP's mission. If both the subscription fee and the donation were refundable (either in full or in proportion) during the subscription period, the presumption cannot be rebutted. However, if the donation was non-refundable, then the NFP may be able to rebut the presumption and recognise the donation portion immediately in accordance with AASB 1058.

### Peppercorn leases

Leases with significantly below market rates (i.e. peppercorn leases) are common in the NFP environment. Under AASB 1058, leased assets arising from significantly below market leases will be measured at fair value at the inception of the lease whereas the lease liability will be recognised at present value of peppercorn lease payment amounts. The difference between the lease asset and liability will be recorded as income under AASB 1058.

## TRANSITION

As noted above, AASB 1058 becomes mandatory for annual periods beginning on or after 1 January 2019. Early application is permitted provided AASB 15 is also adopted for the same period. AASB 15 applies mandatorily to NFP entities from 1 January 2019.

In terms of transition, NFPs are provided with a choice between two methods:

- full retrospective application – with restatement of comparative information in each prior period presented
- partial retrospective application – without restating comparatives. Under this approach, the cumulative effect of initially applying the new requirements is recognised as an adjustment to equity at the date of initial application.

## DISCLOSURES

Refer Appendix 1 for a checklist to assist with AASB 1058 disclosure requirements.

## DEFINITIONS

<b>contributions by owners</b>	Future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the entity which: <ul style="list-style-type: none"> <li>a. conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or</li> <li>b. can be sold, transferred or redeemed.</li> </ul>
<b>fines</b>	Economic benefits received or receivable by an entity, as determined by a court or other law enforcement body, as a consequence of a breach of a law or regulation.
<b>payable tax credits</b>	Tax credits that are not limited to the amount of a taxpayer's tax liability for the period, because they are available to beneficiaries regardless of whether they pay taxes.
<b>tax relief</b>	Preferential provisions of the tax law that provide particular taxpayers with concessions that are not available to others. Tax relief excludes payable tax credits.
<b>taxable event</b>	The event that the government, legislature or other authority has determined will be subject to taxation.
<b>taxes</b>	Economic benefits compulsorily paid or payable to public sector entities in accordance with laws and/or regulations established to provide income to the government. Taxes exclude fines.

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## REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards (and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements)* which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

- a. Tier 1: Australian Accounting Standards; and
- b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR became applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that the General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements.

Disclosure requirements under Tier 2 are the same as those under Tier 1 for this standard.

## APPENDIX 1 – DISCLOSURE CHECKLIST

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This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION <i>(If required)</i>
AASB 1058.23	Has the entity disclosed sufficient information to enable users of financial statements to understand the effects of volunteer services and other transactions where the entity acquires an asset for consideration that is significantly less than fair value principally to enable the entity to further its objectives on the financial position, financial performance and cash flows of the entity?		
AASB 1058.24	An entity shall consider the level of detail necessary to satisfy the disclosure objective in AASB 1058.23 and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.		
AASB 1058.25	An entity need not disclose information in accordance with AASB 1058 if it has provided the information in accordance with another Standard.		
AASB 1058.26	<p>Has the entity disclosed income recognised during the period, disaggregated into categories that reflect how the nature and amount of income (and the resultant cash flows) are affected by economic factors?</p> <p>Has the entity considered disclosing separately the following categories of income?</p> <ul style="list-style-type: none"> <li>a. grants, bequests and donations of cash, other financial assets and goods;</li> <li>b. recognised volunteer services; and</li> <li>c. for government departments and other public sector entities, appropriation amounts recognised as income, by class of appropriation.</li> </ul>		
AASB 1058.27	<p>To assist users to make informed judgements about the contribution of volunteer services and inventories to the achievement of the entity's objectives during the reporting period, and the entity's dependence on such contributions for the achievement of its objectives in the future, an entity is encouraged to disclose qualitative information, by major class of transaction, about the nature of the entity's dependence arising from:</p> <ul style="list-style-type: none"> <li>a. volunteer services it receives, including those not recognised; and</li> <li>b. inventories held but not recognised as assets during the period.</li> </ul>		

CODE		YES / NO / N/A	EXPLANATION (If required)
<b>NON-CONTRACTUAL INCOME ARISING FROM STATUTORY REQUIREMENTS</b>			
AASB 1058.28	Has the entity disclosed income arising from statutory requirements (such as taxes, rates and fines) recognised during the period, disaggregated into categories that reflect how the nature and amount of income (and the resultant cash flows) are affected by economic factors?		
AASB 1058.29	To meet the objective in paragraph 23, an entity shall consider disclosing information about assets and liabilities recognised at the reporting date in accordance with this Standard, including the amounts of: <ul style="list-style-type: none"> <li>a. receivables that are not a financial asset as defined in AASB 132 <i>Financial Instruments: Presentation</i> (e.g. income tax receivable from a taxpayer), and:               <ul style="list-style-type: none"> <li>i. interest income recognised in relation to such receivables during the period; and</li> <li>ii. impairment losses recognised in relation to such receivables during the period; and</li> </ul> </li> <li>b. financial liabilities relating to prepaid taxes or rates for which the taxable event has yet to occur, and the future period(s) to which those taxes or rates relate.</li> </ul>		
AASB 1058.30	Other information that may be appropriate for an entity to disclose includes, for each class of taxation income that the entity cannot measure reliably during the period in which the taxable event occurs: <ul style="list-style-type: none"> <li>a. information about the nature of the tax;</li> <li>b. the reason(s) why that income cannot be measured reliably; and</li> <li>c. when that uncertainty might be resolved.</li> </ul>		
<b>TRANSFERS TO ENABLE AN ENTITY TO ACQUIRE OR CONSTRUCT A RECOGNISABLE NON-FINANCIAL ASSET TO BE CONTROLLED BY THE ENTITY</b>			
AASB 1058.31	Has the entity disclosed the opening and closing balances of financial assets arising from transfers to enable an entity to acquire or construct recognisable non-financial assets to be controlled by the entity and the associated liabilities arising from such transfers, if not otherwise separately presented or disclosed?  Has the entity also disclosed income recognised in the reporting period arising from the reduction of an associated liability?		
AASB 1058.32	Has the entity disclosed information about its obligations under such transfers, including a description of when the entity typically satisfies its obligations (for example, as the asset is constructed, upon completion of construction or when the asset is acquired)?		

CODE		YES / NO / N/A	EXPLANATION (If required)
AASB 1058.33	<p>Has the entity disclosed an explanation of when it expects to recognise as income any liability for unsatisfied obligations as at the end of the reporting period?</p> <p>Has the entity disclosed this information in either of the following ways?</p> <ul style="list-style-type: none"> <li>a. on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining obligations; or</li> <li>b. through qualitative information.</li> </ul>		
AASB 1058.34	Has the entity disclosed the judgements, and changes in the judgements, made in applying AASB 1058 that significantly affect the determination of the amount and timing of income arising from transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity? In particular, has the entity explained the judgements, and changes in the judgements, made in determining the timing of satisfaction of obligations?		
AASB 1058.35	<p>For obligations that the entity satisfies over time, has the entity disclosed both of the following?</p> <ul style="list-style-type: none"> <li>a. the methods used to recognise income (for example, a description of the output methods or input methods used and how those methods are applied); and</li> <li>b. an explanation of why the methods used provide a faithful depiction of the entity's progress toward satisfying its obligations.</li> </ul>		
AASB 1058.36	For obligations satisfied at a point in time, has the entity disclosed the significant judgements made in evaluating when it has satisfied its obligations?		
<b>RESTRICTIONS</b>			
AASB 1058.37	<p>An entity is encouraged to disclose information about externally imposed restrictions that limit or direct the purpose for which resources controlled by the entity may be used. For example, an entity may elect to disclose an explanation of the judgements used in determining whether funds are restricted and any of, or any combination of, the following:</p> <ul style="list-style-type: none"> <li>a. assets to be used for specified purposes;</li> <li>b. components of equity divided into restricted and unrestricted amounts; and</li> <li>c. total comprehensive income divided into restricted and unrestricted amounts – either on the face of the statement of profit or loss and other comprehensive income or in the notes.</li> </ul>		

CODE		YES / NO / N/A	EXPLANATION (If required)
COMPLIANCE WITH PARLIAMENTARY APPROPRIATIONS AND OTHER RELATED AUTHORITIES FOR EXPENDITURE			
AASB 1058.38	Paragraphs 39–41 apply only to government departments and other public sector entities that obtain part or all of their spending authority for the period from a parliamentary appropriation. The amounts disclosed in accordance with paragraphs 39–41 include any amounts appropriated in respect of which the entity recognises revenue or other income in accordance with another Australian Accounting Standard.		
AASB 1058.39	<p>Has the entity disclosed:</p> <ul style="list-style-type: none"> <li>a. a summary of the recurrent, capital or other major categories of amounts authorised for expenditure (including parliamentary appropriations), disclosing separately:           <ul style="list-style-type: none"> <li>i. the original amounts appropriated; and</li> <li>ii. the total of any supplementary amounts appropriated and amounts authorised other than by way of appropriation (eg by the Treasurer, other Minister or other legislative authority);</li> </ul> </li> <li>b. the expenditures in respect of each of the items disclosed in (a) above; and</li> <li>c. the reasons for any material variances between the amounts appropriated or otherwise authorised and the resulting associated expenditures, and any financial consequences for the entity of unauthorised expenditure.</li> </ul>		
AASB 1058.40	For the purposes of resource allocation decisions, including assessments of accountability, this Standard requires that users of financial statements of government departments and other public sector entities that obtain part or all of their spending authority for the period from a parliamentary appropriation be provided with information about the amounts appropriated or otherwise authorised for the entity's use, and whether the entity's expenditures were as authorised. This information may be based on acquittal processes applied by an entity. When spending limits imposed by parliamentary appropriation or other authorisation have not been complied with, information regarding the amount of, and reasons for, the non-compliance is relevant for assessing the performance of management, the likely consequences of non-compliance, and the ability of the entity to continue to provide services at a similar or different level in the future.		
AASB 1058.41	Broad summaries of the major categories of appropriations and associated expenditures, rather than detailed reporting of appropriations for each activity or output, is sufficient for most users of such an entity's financial statements. Determining the level of detail and the structure of the summarised information is a matter of judgement. To develop effective disclosures, entities also subject to AASB 1055 <i>Budgetary Reporting</i> might consider the variance disclosure requirements in that Standard at the same time.		

## **OTHER MATTERS**

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