

Explanatory Statement

Accounting Standard AASB 2019-6 *Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities*

December 2019



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2019-6

This Standard makes amendments to AASB 15 *Revenue from Contracts with Customers* (December 2014) and AASB 1058 *Income of Not-for-Profit Entities* (December 2016).

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

Main Features of AASB 2019-6

Main Requirements

This Standard amends AASB 15 and AASB 1058 to permit not-for-profit entities to apply those Standards to research grants for annual reporting periods beginning on or after 1 July 2019 instead of 1 January 2019. This will provide an extended implementation period for entities with December year-ends for research grants received. The application of AASB 15 and AASB 1058 to other sources of income is not extended. The option to extend the implementation period applies at the entity level and is not available on an individual research grant basis.

This Standard also makes amendments to Illustrative Examples 4A and 4B accompanying AASB 15 to clarify the analysis of how paragraph 35(a) of AASB 15 applies in respect of research grants and the transfer of research findings. The amendments do not change the requirements of AASB 15 or the conclusions of the Illustrative Examples. A further example, Example 4D, is added to illustrate a case with periodic performance obligations.

Paragraph 35(a) addresses whether the customer simultaneously receives and consumes the benefits provided by an entity's performance as the entity performs, as one basis for the entity transferring control of a good or service over time, and therefore satisfying a performance obligation and recognising revenue over time.

Application Date

This Standard applies to annual reporting periods beginning on or after 1 January 2019, which is the mandatory effective date (application date) of AASB 15 and AASB 1058 for not-for-profit entities. Earlier application is permitted.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Consultation Prior to Issuing this Standard

The AASB issued a Fatal-Flaw Review Draft of an amending Standard titled *Amendments to Australian Illustrative Examples for Not-for-Profit Entities accompanying AASB 15* in October 2019 for comment by 8 November 2019, following extensive consultations with stakeholders. The Fatal-Flaw Review Draft was open for comment for four weeks.

The Board received submissions from nine stakeholders on the Fatal-Flaw Review version. The respondents generally disagreed with the approach proposed by the Board. The Board noted the submissions did not raise any new issues not already considered by the Board. The submissions highlighted the diversity of interpretations and reinforced the importance of the illustrative examples reflecting fully the requirements of the Standard.

The Board considered the feedback received and decided to amend the Illustrative Examples 4A and 4B as proposed in the Fatal-Flaw Review Draft. However, the Board also decided to include the additional illustrative example (Example 4D) and to provide additional time for not-for-profit entities to implement the Standards in relation to their research grants.

The Board noted that some stakeholders did not find the Illustrative Examples useful and were concerned that the fact patterns did not reflect common features of most research agreements. The Board decided to include the additional example (Example 4D) to illustrate other key contract features. This additional example presents a greater range of examples in the Illustrative Examples and so assists in better demonstrating how to apply the principles in AASB 15.

The Board observed that implementation of AASB 15 and AASB 1058 by not-for-profit entities with research grants has been difficult. Significant judgement is required in applying the Standards and the sector has a large volume of tailored or non-standard contracts to assess. Many stakeholders in the university sector and medical research sector have

December year-ends. With limited time left for the sector to tackle the significant implementation challenges and uncertainty as to the requirements to be applied, permitting not-for-profit entities to apply the Standards to research grants from periods beginning on or after 1 July 2019 rather than 1 January 2019 provides the sector with additional implementation time and will not affect preparers with June year-ends. The extended implementation period also gives the Board an opportunity to provide further educative materials to assist with implementation.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2019-6 as the amendments made do not have a substantial direct or indirect impact on business or competition.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

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Overview of the Accounting Standard

This Standard makes amendments to AASB 15 *Revenue from Contracts with Customers* (December 2014) and AASB 1058 *Income of Not-for-Profit Entities* (December 2016).

This Standard amends AASB 15 and AASB 1058 to permit not-for-profit entities to apply those Standards to research grants for annual reporting periods beginning on or after 1 July 2019 instead of 1 January 2019. This will provide an extended implementation period for entities with December year-ends for research grants received. The application of AASB 15 and AASB 1058 to other sources of income is not extended. The option to extend the implementation period applies at the entity level and is not available on an individual research grant basis.

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Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.