

Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities

[AASB 15 & AASB 1058]



Australian Government

**Australian Accounting
Standards Board**

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ISSN 1036-4803

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BASIS FOR CONCLUSIONS

Australian Accounting Standard AASB 2019-6 *Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities* is set out in paragraphs 1 – 10. All the paragraphs have equal authority.

Preface

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).

Main features of this Standard

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 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.

Accounting Standard AASB 2019-6

The Australian Accounting Standards Board makes Accounting Standard AASB 2019-6 *Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities* under section 334 of the *Corporations Act 2001*.

Dated 16 December 2019

Kris Peach
Chair – AASB

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

Objective

- 1 This Standard amends AASB 15 *Revenue from Contracts with Customers* (December 2014) and AASB 1058 *Income of Not-for-Profit Entities* (December 2016) 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.
- 2 This Standard also amends the *Australian Illustrative Examples for Not-for-Profit Entities* accompanying AASB 15 to clarify the analysis of how AASB 15 applies in several research grant examples. The amendments do not change the requirements of AASB 15 or the conclusions of the examples. An additional example is added.

Application

- 3 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of the other Standards set out in AASB 1057 *Application of Australian Accounting Standards*.
- 4 This Standard applies to annual periods beginning on or after 1 January 2019. Earlier application of this Standard is permitted.
- 5 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Amendments to AASB 15

- 6 Paragraph AusC1.2 is added as follows:
AusC1.2 Notwithstanding paragraph AusC1.1, not-for-profit entities may elect not to apply this Standard to research grants until annual reporting periods beginning on or after 1 July 2019. If a not-for-profit entity applies this Standard to research grants prior to that, it shall also apply AASB 1058 to research grants at the same time.

Amendments to AASB 1058

- 7 Paragraph C1A is added as follows:
C1A Notwithstanding paragraph C1, an entity may elect not to apply this Standard to research grants until annual reporting periods beginning on or after 1 July 2019. If a not-for-profit entity applies this Standard to research grants prior to that, it shall also apply AASB 15 to research grants at the same time.

Amendments to Australian Illustrative Examples for not-for-profit entities

8 Illustrative Examples 4A and 4B in the Australian examples accompanying AASB 15 are amended as follows:

Example 4—Research activities—Transfer of research findings
<p>Example 4A – Enforceable agreement, sufficiently specific performance obligation, research data only</p> <p>Research Institute C receives a cash grant from a donor, Marine Sanctuaries Trust M, of \$5.3 million to undertake research that aims to track whale migration along the eastern coast of Australia.</p> <p>The terms of the grant are:</p> <ul style="list-style-type: none">• a period of three years;• the return of funds that are either unspent or not spent in accordance with the agreement;• publication of research data on a public website as it is obtained, so that any researchers can use the data;• the IP arising from the research is neither transferred to nor licensed to donor M;• annual progress reports and a final report are required;• Institute C may publish research results in conference presentations and/or scholarly journals, retaining the copyright to such results; and• the institute has an explicit right to payment for the research services completed to date if the agreement is terminated. <p>Institute C concludes that the arrangement is a contract with a customer as defined in AASB 15 on the basis that:</p> <ul style="list-style-type: none">• Institute C’s promise of specified research <u>and contemporaneous publication of the research data</u> is enforceable as the grant is refundable if the research is not undertaken;• the institute identifies its promise to undertake the research <u>and contemporaneously publish the research data</u> is sufficiently specific and represents a single performance obligation; and• the undertaking of the research <u>and contemporaneous publication of the data</u> will represent services provided to the donor, as it is a beneficiary of the research even though the research data is publicly available. <p><u>Accounting treatment</u></p> <p>In accordance with AASB 15, Institute C allocates the cash grant to its identified performance obligation and recognises the financial asset (cash) and a contract liability of \$5.3 million on initial recognition.</p> <p>Institute C concludes that the performance obligation is satisfied over time as the donor simultaneously receives and consumes the benefits of the research services as they are performed (paragraph 35(a)). This is on the grounds that another entity would not need to substantially re-perform the research completed to date by the institute if that other entity were to fulfil the remaining performance obligation to the donor (paragraph B4) as the research data is made public as it is collected, and thus available to any replacement researchers.</p> <p>Accordingly, the institute recognises revenue over time as it satisfies the performance obligation. The institute elects to measure its progress towards complete satisfaction of the performance obligation on the basis of research data published.</p> <p>Example 4B – Enforceable agreement, sufficiently specific performance obligation, research data and assessment only</p> <p>In this example, the facts of Example 4A apply, except that:</p> <ul style="list-style-type: none">• the grant requires Research Institute C to prepare interim and final reports analysing the tracking data obtained;• publication of the research data is required at the conclusion of the research, rather than contemporaneously;• the IP arising from the research is neither transferred to nor licensed to donor M; and• the institute is restricted from readily directing the tracking information and analysis for another use of the institute. <p>Institute C concludes that the arrangement is a contract with a customer as defined in AASB 15, on the same basis as set out in Example 4A.</p>

Accounting treatment

In accordance with AASB 15, Institute C allocates the cash grant to its identified performance obligation and recognises the financial asset (cash) and a contract liability of \$5.3 million on initial recognition.

Institute C concludes that the donor does not simultaneously receive and consume the benefits of the research services as they are performed, since the research data is not published until the conclusion of the research. This is on the grounds that another entity would need to substantially re-perform the research completed to date by the institute if that other entity were to fulfil the remaining performance obligation to the donor. Furthermore, the performance of the research activities results in the accumulation of knowledge, which is an asset (whether recognisable or unrecognisable) developed by the researcher but not immediately consumed. Therefore, paragraph 35(a) is not satisfied.

As the donor does not obtain the IP under the agreement, Institute C determines that its research does not create or enhance an asset that donor M controls as the asset is created or enhanced. Therefore, paragraph 35(b) is not satisfied.

Institute C notes that its research performance does not create an asset with an alternative use to the entity due to the restrictions in the agreement regarding directing the research to another use. Institute C also notes that it has an explicit, enforceable right to payment for performance completed. Therefore, paragraph 35(c) is satisfied.

Accordingly, Institute C concludes that the performance obligation is satisfied over time and recognises revenue over time as it satisfies the performance obligation. The institute elects to measure progress on the basis of the amount it would be entitled to receive for its performance to date, which corresponds with the value of the performance to the customer.

9 Example 4D is added to Illustrative Example 4 in the Australian examples accompanying AASB 15 as follows:

Example 4—Research activities—Transfer of research findings

...

Example 4D – Enforceable agreement, sufficiently specific performance obligation, research data only

In this example, the facts of Example 4C apply, except that, rather than requiring publication of research data contemporaneously or at the conclusion of the research, the grant agreement refers to the institute's policy that requires the de-identified research findings (including data) to be made available to the donor and authorised third parties periodically (eg at least annually at the end of each year).^a

Institute C concludes that the arrangement is a contract with a customer as defined in AASB 15 on the basis that:

- Institute C's promise of specified research and making available the de-identified research findings is enforceable as the grant is refundable if the research is not undertaken; and
- the institute identifies its promises to make available de-identified research findings periodically as sufficiently specific promises as they are separate performance obligations each satisfied at a point in time, representing discrete transfers of the research findings to the donor or third-party beneficiaries. The promises are sufficiently specific on the basis that the policies attached to the research grant specify the nature of the material (de-identified research findings (including data)) to be made available and a timeframe for that to occur (ie making the research findings available periodically, at least at the end of each of the three years). The terms of the grant require the institute to make the research findings available to the donor and third parties as set out in its policy, regardless of whether the donor or third parties actually access the findings.

Accounting treatment

In accordance with AASB 15, Institute C allocates the cash grant to its identified performance obligations and recognises the financial asset (cash) and a contract liability of \$5.3 million on initial recognition.

Institute C concludes that for each of the performance obligations, the donor does not simultaneously receive and consume the benefits of the research services as they are performed. This is on the grounds that performance of the research activities results in the accumulation of knowledge, an asset (whether recognisable or unrecognisable) that is not immediately consumed. Therefore, paragraph 35(a) is not satisfied.

The donor does not obtain the IP under the agreement, nor does the donor control the knowledge accumulated as research activities are carried out. As a result, Institute C determines that its research does

not create or enhance an asset that the donor M controls as the asset is created or enhanced. Therefore, paragraph 35(b) is not satisfied.

Moreover, the institute notes that it is able to utilise the research it performs for any other use it determines. This is on the grounds that the institute has no contractual or practical limitation on its use of the research, including having the ability to sell the research to another party. Therefore, the institute's performance does create an asset with an alternative use to the entity, and paragraph 35(c) is not satisfied.

Accordingly, Institute C concludes that each performance obligation is satisfied at a point in time (eg the end of each year) when the research findings to date are made available, whether or not the donor or third parties access the findings, and recognises the related revenue at those points in time (eg the end of each year).

- a Alternatively, where the grant agreement does not explicitly refer to the institute's policy, provided the donor is aware of this policy, the institute's past practice of making de-identified research findings available at least annually to donors and authorised third parties in accordance with its policy may create a valid expectation that the research findings will be made available. In this case, the implicit promises to make available de-identified research findings periodically would be treated as part of the grant terms. [The grant agreement could instead refer explicitly to the making available of research findings, so that reference to a policy of the institute would not be necessary.]

Commencement of the legislative instrument

10 For legal purposes, this legislative instrument commences on 31 December 2019.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2019-6 Amendments to Australian Accounting Standards – Research Grants and Not-for-Profit Entities.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in this Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Research grant examples

BC2 The Board became aware of different interpretations of how paragraph 35(a) of AASB 15 *Revenue from Contracts with Customers* applies in the case of research grants and decided that the analysis in the Illustrative Examples accompanying the Standard did not fully explain how to apply the paragraph. 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.

BC3 The Board determined that paragraph 35(a) leads to three possible outcomes:

- if it is clear the customer (the donor) simultaneously receives and consumes the research service, paragraph 35(a) is satisfied;
- if it is clear the customer (donor) does not simultaneously receive and consume the research service, paragraph 35(a) is not satisfied; and
- if it is uncertain whether the customer (donor) simultaneously receives and consumes the research service, it is necessary to refer to paragraph B4 to determine whether paragraph 35(a) is satisfied. Paragraph B4 states that, in those circumstances, a performance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfil the remaining performance obligation to the customer.

BC4 Whilst the original conclusions in the Illustrative Examples are appropriate, applying the original analysis to a different fact pattern could lead to an inappropriate application of paragraph 35(a). Accordingly, the Board made changes to Illustrative Examples 4A and 4B by removing the references to re-performance and paragraph B4 in assessing the application of paragraph 35(a), and adding an explanation in Illustrative Example 4B on why in this example it is clear that there is no simultaneous receipt and consumption by the donor of the benefits of the institute’s performance of the research activities.

BC5 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 an additional example to illustrate other key contract features. This additional example would present a greater range of examples in the Illustrative Examples and so assist in better demonstrating how to apply the principles in the Standard.

Issue of Fatal-Flaw Review version

BC6 In October 2019, the Board issued a Fatal-Flaw Review version of the amendments for public comment with a four-week comment period, following extensive consultations with stakeholders. 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 considered the feedback received and 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 the nine 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.

Optional deferral of AASB 15 and AASB 1058 for research grants

- BC7 The Board observed that implementation of AASB 15 and AASB 1058 *Income of Not-for-Profit Entities* 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 will provide the sector with additional implementation time and will not affect preparers with June year-ends. The extended implementation period would also give the Board an opportunity to provide further educative materials to assist with implementation.
- BC8 The extended implementation period for research grants applies to the accounting for both income relating to research grants (including revenue) and contract costs relating to research grants. Not-for-profit entities can elect whether to apply AASB 15 and AASB 1058 to all research grants, or to apply the previously applicable Standards to them, until periods beginning on or after 1 July 2019, when AASB 15 and AASB 1058 will have to be applied. The Board considered whether to define ‘research grants’ and decided that it would not be feasible to clearly define the term, but noted the numerous examples of research grants provided in the Illustrative Examples accompanying AASB 15. The Board noted the exemption does not apply on an individual research grant basis as such an exemption would significantly impair the consistency and comparability of an entity’s results.
- BC9 The Board considered whether to defer the application of AASB 15 and AASB 1058 in their entirety for all not-for-profit entities. However, the Board noted that such an approach would have implications for AASB 16, as AASB 16 includes references to AASB 15. For example, AASB 16 requires an entity to assess whether a transfer of an asset in a sale and leaseback transaction is a sale under AASB 15 (ie when a performance obligation is satisfied). The Board decided that the better approach was to permit delayed implementation of the Standard for research grants, being the area of most concern in applying the Standard.