



Accounting Standard Changes Revenue, Income and Financial Instruments

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Today's Agenda

REVENUE AND INCOME

- Background/Refresh
 - AASB 1058 Income of not for profit entities
 - AASB 15 Revenue
- Transition
- The five step approach (revenue and income)
- Practical examples

OTHER MATTERS

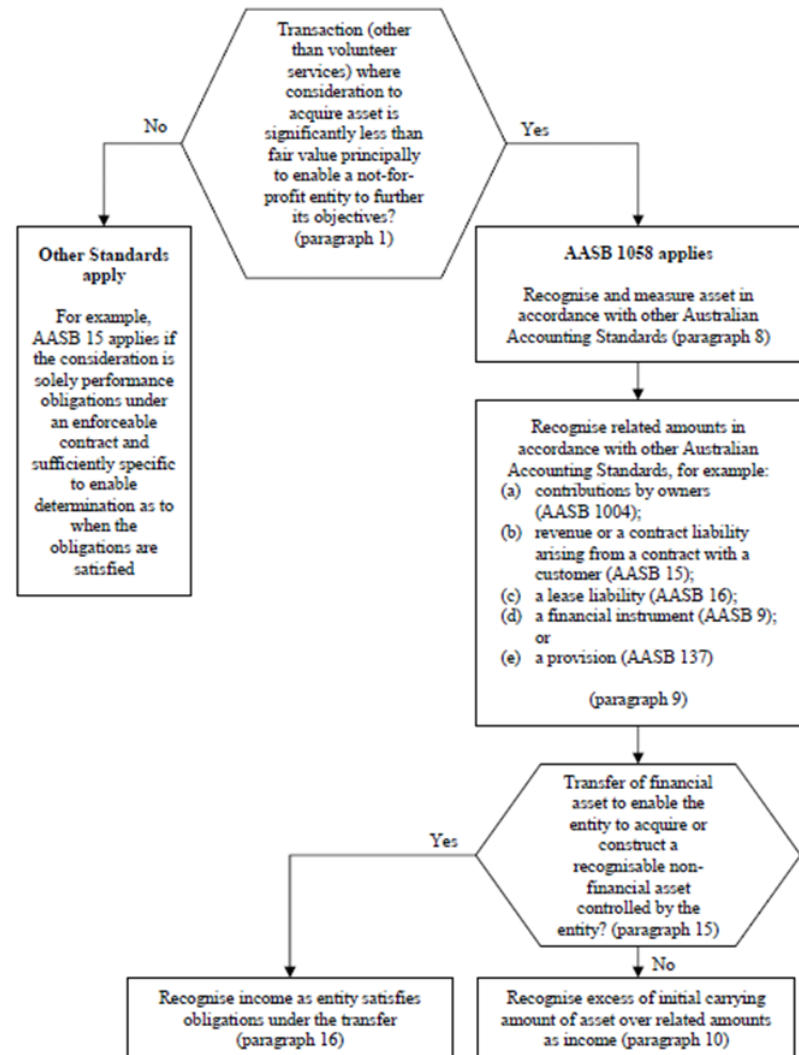
- AAASB 9 Financial Instruments

AASB 1058 Income of not for profit entities

BACKGROUND

- 1058 only applies to transactions where council's consideration (what you have to give in return for the asset) is significantly less than the value of the asset received.
- Recognise excess of asset value over obligation as income.
- If contribution to construct/acquire a non-financial asset, recognise income as you satisfy the obligation

Chart 1 – Transactions other than Volunteer Services

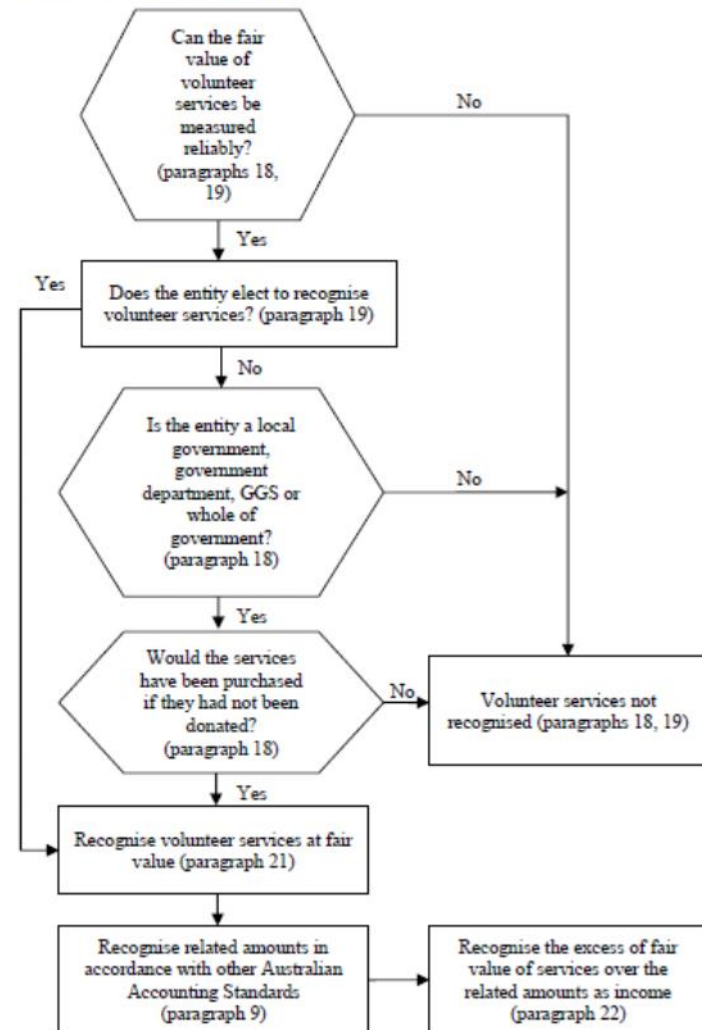


AASB 1058 Income of not for profit entities

BACKGROUND

- Transition guidance – only recognise volunteer services that would otherwise be purchased.

Chart 2 – Volunteer Services

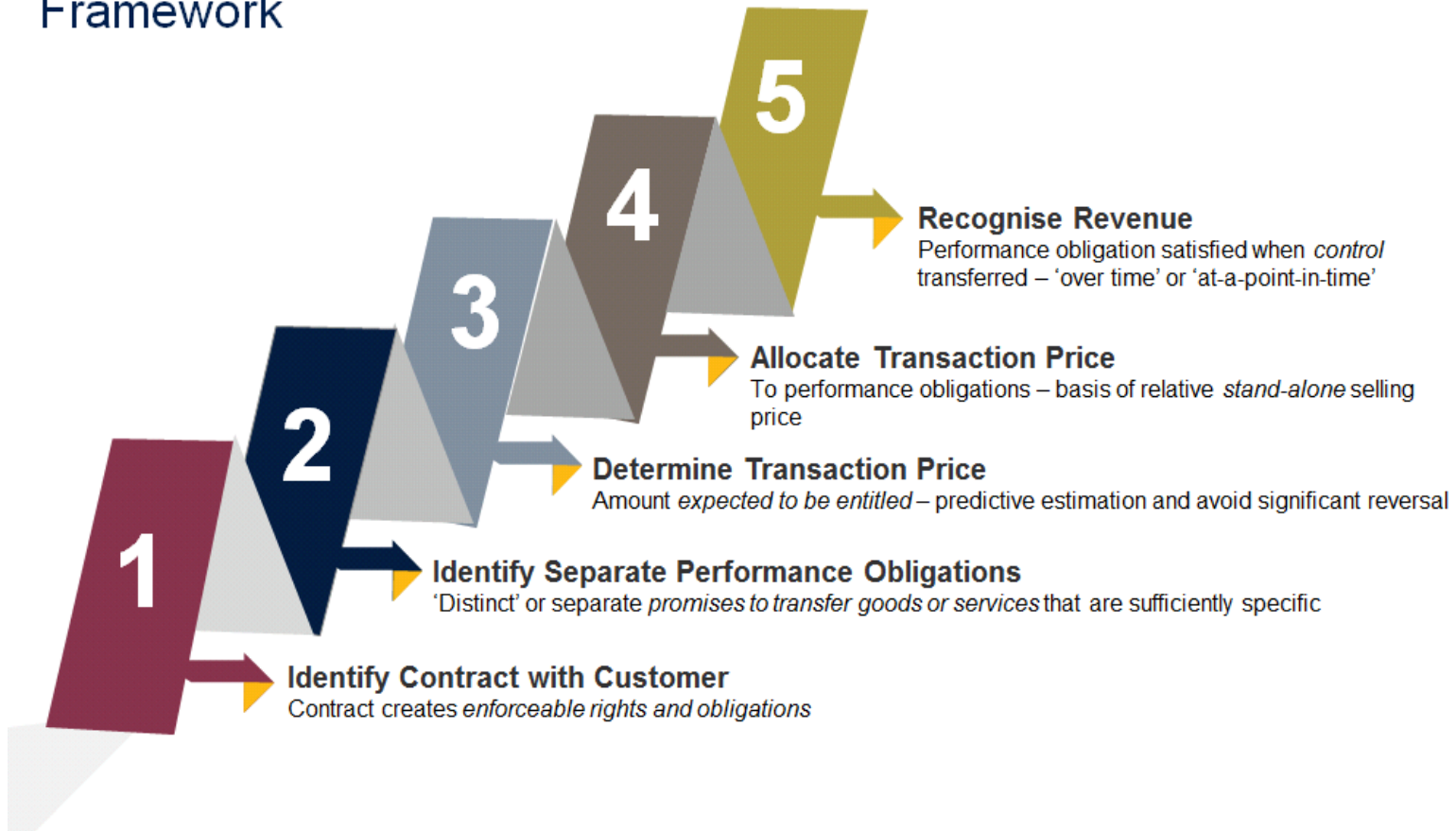


Transition

- AASB 1058 and 15 both apply from 1 July 2019
 - Need to ensure processes are in place on 1 July this year.
 - New contract/contribution/grant review process
 - Volunteer services process
 - Not complete contract search
 - Important to remember that 'not complete' definition varies under AASB 15 and 1058
 - Determine any opening balance adjustments
- AASB 9 applies from 1 July 2018
 - Calculate year end provision (30 June 2019) based on expected credit loss
 - Consider historic level of write off
 - Adjust for expected future impacts (if any)
 - Consider significant known issues/items

The Five Steps

Framework



Practical examples - 1

Rates and Charges

- Q: Do you have a contract with customer?
- A: No. (this rules out AASB15)
- Q: Is Council's consideration significantly less than value of the rates?
- A: Yes (no specific obligation to ratepayer)

.....Relevant standard is AASB 1058.....

AASB 1058 requires:

- Step 1 – (Dr entry) recognise asset (rates receivable) at fair value
- Step 2 – (Cr entry) recognise 'related amount' (in accordance with other AASB)
 - Note that the credit entry can only go to one of three places:
 - Income statement (as revenue)
 - Balance sheet (as a liability)
 - Balance sheet (as a contribution by owner)
 - For Rates – the only option can be the income statement

Practical examples - 2

Memberships (Leisure Centres)

- Q: Do you have a contract with customer?
- A: Yes. (this brings in AASB15)
- Q: Is Council's consideration significantly less than value of the membership?
- A: No (provide facilities at a commercial rate)

.....Relevant standard is AASB 15.....

AASB 15 requires:

- Step 1 – Identify contract with customer (membership agreement)
- Step 2 – Identify performance obligations (provision of facilities over membership period)
- Step 3 - Determine transaction price (membership fee)
- Step 4 - Allocate transaction price (one performance obligation)
- Step 5 – Recognise revenue as obligation satisfied over time

.....remember materiality.....

Practical examples - 3

Capital Grants – to construct an identifiable non financial asset

- Q: Do you have a contract with customer?
- A: Yes. (AASB15?)
- Q: Is Council's consideration significantly less than value of the grant?
- A: Yes (no cost to obtain grant)

.....Relevant standard is AASB 1058.....

AASB 1058 will direct you back to AASB 15, which requires:

- Step 1 – Identify contract with customer (grant agreement)
- Step 2 – Identify performance obligations (construction of asset)
- Step 3 - Determine transaction price (grant amount)
- Step 4 - Allocate transaction price (one performance obligation –milestones?)
- Step 5 – Recognise revenue as obligation satisfied over time (percentage of completion?)

Practical examples - 4

Operating Grants – to deliver specific services

- Q: Do you have a contract with customer?
- A: Yes. (AASB15?)
- Q: Is Council's consideration significantly less than value of the grant?
- A: No (cost of providing services)

.....Relevant standard is AASB 1058.....

AASB 1058 will direct you back to AASB 15, which requires:

- Step 1 – Identify contract with customer (grant agreement)
- Step 2 – Identify performance obligations (hours of service)
- Step 3 - Determine transaction price (funding per hour)
- Step 4 - Allocate transaction price (\$x per hour)
- Step 5 – Recognise revenue as obligation satisfied (per hour of delivery)

AASB 9 – Calculating ECL



Old – Create provision based on an impairment event (at an individual transaction level).



New – Create provision at the point of sale based on your expected level of credit loss (at a population level)

Practical Example 5 - ECL

Council has the following provision matrix at balance date:

	Expected Default rate	Value	ECL
Not past due	0.50%	\$ 325,000	\$ 1,625
1-30 days past due	1.00%	\$ 145,000	\$ 1,450
31-60 days past due	1.50%	\$ 85,000	\$ 1,275
61-90 days past due	4.00%	\$ 45,000	\$ 1,800
More than 90 days past due	10.00%	\$ 35,000	\$ 3,500
		<u>\$ 635,000</u>	<u>\$ 9,650</u>

The not past due
would not
previously have
been recognised

This information is
based on past
experience and
future expectations

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