

Accounting Alert

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The AASB issues Pending Standards for Revenue, Government Grants, and Contributions

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The Australian Accounting Standards Board (AASB) has released the following Pending Standards:

- AASB 118 *Revenue*
- AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*
- AASB 1004 *Contributions*

This *Accounting Alert* provides an overview of these Pending Standards and highlights some of the main issues arising from the key changes.

Pending AASB 118 Revenue

Pending AASB 118 distinguishes between income and revenue.

- 'Revenue' is defined in Pending AASB 118 as *the gross inflow of economic benefits during the period arising in the course of **ordinary activities** of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.*
- This definition is more restrictive than the current Australian definition of revenue in AASB 1004 *Revenue* (issued in June 1998), which encompasses revenue regardless of whether or not it is attributable to ordinary activities.

Pending AASB 118 only applies to revenue arising from

- the sale of goods;
- the rendering of services; and
- the use by others of entity assets yielding interest, royalties and dividends.

Pending AASB 118 does not apply to contributions of assets, forgiveness of liabilities and revenues arising from any other source, whereas AASB 1004 *Revenue* includes these areas within its scope. Consequently Pending AASB 118 does not apply to the following areas that were previously included within the scope of AASB 1004 *Revenue*:

- revenue that is not attributable to ordinary activities and which arises from the sale of goods, the rendering of services, or the use by others of entity assets yielding rent, interest, royalties and dividends
- revenue, whether or not attributable to ordinary activities, arising from the disposal of assets (other than goods) not measured at market values or present values with changes in values recognised in the income statement when they occur
- revenue, whether or not attributable to ordinary activities, arising from contributions of assets
- revenue, whether or not attributable to ordinary activities, arising from the forgiveness of liabilities, except to the extent that such forgiveness constitutes the defeasance of debt.

Exchange of Goods or Services

Pending AASB 118 states that when goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue.

AASB 1004 *Revenue* currently requires that an exchange or swap of goods or services can only be treated as a transaction that does not give rise to revenue when, and only when, the exchange is for goods or services that are of the same nature and value **and the transaction does not involve cash consideration.**

AASB 1004 *Revenue* also notes that the goods or services exchanged in a transaction that does not give rise to revenue should be homogeneous.

Therefore, revenue on the exchange or swap of goods or services will not be recognised as frequently under Pending AASB 118 compared to AASB 1004 *Revenue*.

Sale of Goods: Recognition of Revenue

Pending AASB 118 requires that revenue from the sale of goods shall be recognised when, amongst other things, the entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

AASB 1004 *Revenue* requires revenue from the sale of goods to be recognised when, amongst other things, the entity has passed control of the goods to the buyer. Therefore, a difference between Pending AASB 118 and AASB 1004 *Revenue* is that revenue is recognised based on transfer of significant risks and rewards of ownership rather than control.

Pending AASB 118 also requires that costs relating to the transaction be capable of being measured reliably before revenue is recognised. This criterion is not included in AASB 1004 *Revenue*.

Although the terminology used differs between Pending AASB 118 and AASB 1004, this is not expected to have a significant impact for practical application

Rendering of Services: Stage of Completion

Unlike AASB 1004 *Revenue*, Pending AASB 118 does not include the following requirements when recognising revenue by reference to the stage of completion:

- that the entity controls the right to be compensated, and
- the amount of revenue can be reliably measured.

Consequently, revenue recognition by reference to the stage of completion of a contract is likely to occur at an earlier point in time under Pending AASB 118 than under AASB 1004 *Revenue* in certain circumstances.

When recognising revenue by reference to the stage of completion, Pending AASB 118 also requires that the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. This condition is not included in AASB 1004 *Revenue*.

Therefore to the extent that the costs incurred and the costs to complete the transaction are not able to be measured reliably, it is possible that revenue would be recognised earlier under AASB 1004 *Revenue* than under Pending AASB 118.

Pending AASB 120 Accounting for Government Grants and Disclosure of Government Assistance

Pending AASB 120 applies to government grants and government assistance to **for-profit entities**. Not for-profit entities will apply Pending AASB 1004 *Contributions* in respect of these transactions.

Recognition

Government grants, including non-monetary grants at fair value, are not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to them, and the grants will be received. Receipt of the grant does not in itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

These requirements will generally result in later recognition of government grants as compared to AASB 1004 *Revenue* which requires that contributions (including government grants) be recognised when:

- the entity gains control of the contribution, or the right to receive the contribution,
- it is probable that the economic benefits will flow to the entity, and
- the amount of the contribution can be measured reliably.

Further, Pending AASB 120 requires that grant income be recognised as income over the period necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Grants received for the acquisition or construction of an asset should be presented as deferred income, which is recognised over the useful life of the asset.

Currently under AASB 1004 *Revenue* and UIG Abstract 11 *Accounting for Contributions of, or Contributions for the Acquisition of, Non-Current Assets*, contributions are recognised immediately as revenue when the recognition criteria are met.

Repayments

Pending AASB 120 requires that repayments of grants be treated as a revision of an accounting estimate and first offset against any deferred income balance if the grant is in respect of the acquisition or construction of an asset, or deferred credit if the grant is in respect of income, with the balance recognised immediately as an expense.

UIG Abstract 11 currently requires that a liability and an expense be recognised immediately in the reporting period in which a present obligation to repay a government grant arises.

Disclosure

Pending AASB 120 introduces new disclosures, including the nature and extent of government grants recognised, an indication of other forms of government assistance from which the entity has directly benefited, and any unfulfilled conditions and other contingencies attached to the recognised amounts.

Departures from IAS 20

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* includes the option to measure non-monetary grants at a nominal amount. This option was removed by the AASB in its deliberations of Pending AASB 120.

IAS 20 also includes the option to present a grant relating to an asset as a reduction in the carrying amount of the asset, rather than being presented as deferred income. This option was also removed by the AASB in its deliberations on Pending AASB 120.

Pending AASB 1004 Contributions

Pending AASB 1004 *Contributions* applies to contributions to (including liabilities forgiven in relation to) **not-for-profit entities**. For-profit entities will apply Pending AASB 120 in respect of these transactions.

There are no differences in the recognition requirements of Pending AASB 1004 *Contributions* and AASB 1004 *Revenue* as they relate to contributions to (including liabilities forgiven in relation to) not-for-profit entities. These recognition requirements are different from those of Pending AASB 120 and therefore, not-for-profit entities that comply with the requirements of Pending AASB 1004 *Contributions* may not be in compliance with the requirements of IAS 20.

Feedback and Assistance

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