

Universities Revenue recognition Not for profit

Universities will need to apply the new standards for recognising revenue for the first time in the 2019 financial year.

The new standards for recognising revenue for NFP entities are AASB 15 Revenue from Contracts with Customers and AASB 1058 Income for Not-For-Profits. These standards are now in the year of adoption and Universities will need to be applying them for the first time in the 2019 financial year.

Impact of the new standards

The old revenue recognition standards generally resulted in Universities being required to recognise revenue when received rather than aligning the revenue recognition with the performance of obligations.

The adoption of the new standards can have a material impact on Universities financial position. ShineWing has been assisting several Universities with reviewing contracts and assisting with the implementation. Based on our experience, the opening balance adjustment can be in the order of \$30 - \$90 million representing between 5-10% of revenue.

In simple terms, income has previously been recognised when the funds were received rather than apply a matching principle as to when the obligations associated with the receipts of the funds are discharged.

An adjustment may be required upon adoption to reverse income booked in previous years and return to equity in future years as the obligations are satisfied. The adjustments will have no cashflow implications.



Based on our experience, the opening balance adjustment when implementing the new standards can be in the order of \$30 - \$90 million representing between 5-10% of revenue.

How to apply the new standards

NFP entities are required to assess each individual revenue contract to determine whether the income received is that of a contract with a customer, a donation or a combination of both.

A contract with a customer would exist if the following two criteria have been met:

1. The entity has a legally enforceable contract with a customer
2. That contract includes "sufficiently specific" promises for the not-for-profit entity to transfer goods or services to the customer or third party beneficiaries.

If these two criteria have been met revenue would be recognised in accordance with AASB 15. If not met, then the revenue would be accounted for under AASB 1058.

Depending on the size of the organisation and the individual number of funding contracts, the exercise of reviewing individually contracts could be time consuming and complex. The complexity arises in determining whether promises are sufficiently specific, NFPs would need to consider indicators such as whether there is enough detail in the contract regarding the nature of the good/service they're providing, the cost/value of the good/service and the period of time over which the good/service will be transferred. Judgement will be required in assessing these indicators.

Managing AASB 15 & AASB 1058 implementation

Because of the wide ranging effects of the new standards, the implementation effort should include functions outside of the Finance team, including R&D, Philanthropic Grant managers and senior managers. A number of related work streams should be considered in this effort, including:

- Finance department
- Business processes and systems
- Change management, communication and training team.

It will be critical to have strong project management in order to coordinate the roles of the various business functions and to keep the work streams running smoothly and on schedule.



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