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| FRD 122 |  |  | Transitional requirements on the application of AASB 1058 *Income of Not-for-Profit Entities (March 2020)* |
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| Purpose |  | 1.1 | To prescribe the accounting transition adjustments on the application of AASB 1058 *Income of Not-for-Profit Entities*. |
| Application |  | 2.1 | Applies to all entities defined as either a public body or a department under section 3 of the *Financial Management Act 1994, except those entities which are not controlled by the State and whose financial position and result are thus not consolidated in the Annual Financial Report for the State of Victoria*. Application by State owned corporations is encouraged. |
| Operative date |  | 3.1 | Annual reporting periods commencing on or after 1 January 2019. |
|  |  | 3.2 | NFP entities shall also apply AASB 15 and AASB 1058 to research grants consistent with the operative dates of these accounting standards. |
| Requirements |  | 4.1 | Initial application of AASB 1058An entity shall apply the AASB 1058 requirements retrospectively, with the cumulative effect of initially applying this standard against the opening retained earnings at 1 July 2019[[1]](#footnote-1)(date of initial application). Under this transition method, the entity shall elects to apply this standard retrospectively only to contracts and transactions that are not completed contracts at the date of initial application. |
|  |  | 4.2 | Comparative information shall not be restated. |
|  |  | 4.3 | The following practical expedients shall be used when applying this standard retrospectively:1. At the date of transition, assets acquired for consideration that were significantly less than fair value principally to enable the entity to further its objectives may have been measured at initial recognition under other Australian Accounting Standards at a cost that was significantly less than fair value. These assets are not required to be remeasured at fair value upon transition.
2. When the entity applies AASB 1058 before applying AASB 16 *Leases,* for leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were classified as operating leases in accordance with AASB 117 *Leases,* the entity shall not apply the requirements of AASB 1058 to recognise any asset or income.Instead, the entity will continue to apply its accounting policy under AASB 117 to the operating leases*.* On transition to AASB 16, the entity shall apply the transition requirements of the standard to leases classified as operating leases in accordance with the previous AASB 117.
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|  |  | 4.3 | 1. The State mandates that entities covered by this FRD apply the temporary option to not apply the fair value measurement requirements for right-of-use assets arising from leases with significantly below-market terms and conditions principally to enable the entity to further its objectives*.*
2. When the entity applies AASB 1058 before applying AASB 16 *Leases,* for leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were classified as finance leases in accordance with AASB 117 *Leases,* the entity shall:
	1. measure the leased asset at fair valueat the date of initial application of the standard;
	2. measure the lease liability in accordance with AASB 117; and
	3. recognise any related items in accordance with the requirements of AASB 1058 (9). For example, the related amounts may take the form of
		* a contribution by owners, in accordance with AASB 1004 *Contributions*;
		* revenue or contract liability arising from a contract with a customer, in accordance with AASB 15;
		* a lease liability, in accordance with AASB 16;
		* a financial instrument, in accordance with AASB 9 *Financial Instruments;* or
		* a provision, in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*; and
	4. recognise any income arising as an adjustment to the opening balance of retained earnings (or some other component of equity, as appropriate) at the date of initial application of this standard.
3. An entity may, as a practical expedient, apply Requirement 4.3(d) to a portfolio of leases with similar characteristics, if the entity reasonably expects that the effects on the financial statements of this approach would not differ materially from applying to individual leases within that portfolio. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.
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|  |  | 4.4 | The entity shall disclose the following information:1. The title of the Australian Accounting Standard;
2. The change in accounting policy made in accordance with the transitional provisions and any practical expedients used;
3. The amount by which each financial statement line item is affected in the current reporting period by the application of this standard as compared to AASB 1004 *Contributions* before the change; and
4. An explanation of the reasons for significant changes identified.
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| Definition |  | 5.1 | **Completed contracts –** a completed contract is a contract or a transaction for which the entity has recognised all the income in accordance with AASB 1004*.* |
|  |  | 5.2 | Date of initial application – is the start of the reporting period in which the entity first applies this standard. |
| Guidance |  | 6.1 | The retrospective application with the cumulative effect of initial application of this standard, adjusted against the opening retained earnings of the year of application was selected to reduce the costs and onerous burden of restating the comparative information. The practical expedients further reduce the effort and cost associated with the application of the standard. |
|  |  | 6.2 | This approach will require:1. restatement of the opening retained earnings in the year of application; and
2. there will be no restatement of comparatives.
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|  |  | 6.3 | An example of the transitional disclosures is illustrated in the 2019-20 Model Report for Victorian Government Departments for the relevant reporting period and is available on the DTF website:<http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-Reporting-Policy/Model-Report> |
| Relevant pronouncements |  | 7.1 | AASB 1058 *Income of Not-for-Profit Entities* (September 2018)AASB 1004 *Contributions* (December 2016)AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* (December 2018) |
| Background |  | 8.1 | The Australian Accounting Standards Board (AASB) issued AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* after reconsidering the current accounting requirements for government grants and other types of contributions contained within AASB 1004 *Contributions* that applied to the not-for-profit (NFP) entities. This FRD is issued in March 2020 to prescribe the transitional requirements of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* on initial adoption of this standard. |

1. 1 January 2019 for 31 December year-end reporters [↑](#footnote-ref-1)