



Australian Government

Department of Education and Training

Transition to new accounting standards

**Effect on research income higher education research data
collection requirements**

Consultation Paper – September 2018

Research Block Grants

Context

On 1 January 2019, higher education providers (HEPs) will be required to adopt new accounting standards. The Australian Securities and Investments Commission has warned that AASB 15, together with AASB 16 and AASB 9, represent the most significant change to financial reporting in the past 13 years¹. We understand that AASB 15, the primary accounting standard for research income, is likely to impact the approach HEPs take to complete their Higher Education Research Data Collection (HERDC) Returns. The Department of Education and Training (the department) uses research and development (R&D) income data it collects via HERDC returns in conjunction with data collected by other mechanisms to calculate allocations for the Research Support Program and the Research Training Program.

Requirements for HERDC Research Income data for 2017 are set out in Section 4 of the *2018 HERDC Specifications*.

In respect to the HERDC, these accounting changes will impact 2019 R&D data, requirements for which will be set out in the *2020 HERDC Specifications*. We are taking the opportunity well ahead of this time to consult with the sector on AASB changes in relation to the HERDC as part of the *2019 HERDC Specifications* consultation process. We are aware that HEPs have started the process of making changes to their systems, processes and controls to implement the new standards to existing and new grants and agreements. To reduce the significant administrative burden brought about by these changes, where possible, the department is working with the sector to develop practical guidelines for the sector to approach completing HERDC returns. We aim to inform the sector of requirements that may impact any potential recoding of 2019 R&D data in a timely fashion.

The feedback you provide through this consultation process will inform the development of the final *2019 HERDC Specifications for the collection of 2018 data*, and will flag ahead of time the changes that commence in the *2020 HERDC Specifications for the collection of 2019 data*.

About this paper

This consultation paper aims to:

1. Seek **feedback** on the proposed approach by which R&D income can be recorded for the purposes of the *HERDC*.
2. Gather **information** on the extent to which each HEP will be affected by the changes to *AASB 9* and *AASB 15*.
3. Provide **advice** on the treatment of certain categories of R&D income and seek feedback.

¹ <https://home.kpmg.com/au/en/home/insights/2017/04/introducing-aasb-15-revenue-standard.html>

How to make a submission

This paper outlines seven issues and poses 13 associated questions. Please provide your feedback by answering these questions listed in section 5. The department is inviting submissions in response to these questions by **COB Wednesday 17 October 2018** by email to RBGrants@education.gov.au

Late submissions will only be accepted with written approval ahead of the due date.

Please contact RBGrants@education.gov.au if you have any further questions in relation to this consultation paper.

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1 Proposed approach to treat R&D income for HERDC return purposes

Issue 1: Timing and adoption approaches to AASB 15 and AASB 9

Proposals

The department proposes that HEPs proceed with the adoption of *AASB 15* and *AASB 9* for the purposes of R&D income as outlined in Section 4.1 of the *HERDC Specifications*, and commencing for 2019 R&D data. Four proposed options to proceed with this approach are described below.

Option 1 – Adopt AASB 15 and AASB 9 for 2019 R&D income onwards, and reconcile existing contracts

Being consistent with the requirements set out in the new accounting standards will ensure HEPs report their *HERDC Research Income Return* in a consistent manner with the *Financial Statement Guidelines* and the Australian Accounting Standards.

However, this approach may introduce volatility in the R&D income returns (for 2019 data) that HEPs will submit to the department in 2020 as institutions reconcile their R&D income returns to reflect a ‘matching principle’ for revenue recognition, instead of a simple cash basis. Issue 6 describes how a matching principle would apply to a research agreement. This volatility would likely create volatility in the research block grant allocations for 2021 and beyond as research income is a driver in determining allocations.

Option 2 – Adopt AASB 15 and AASB 9 for all new grants commencing from 1 January 2019 onwards, and keep the reporting of R&D income from existing contracts on their current basis

This approach operates in a similar fashion to Option 1, which requires all HEPs to report new research grants, contracts or other enforceable agreements in line with the new accounting standards. However, HEPs can choose whether to also apply this to existing contracts to ensure compliance with new accounting standards.

Implementing this option would reduce the amount of recoding HEPs would need to undertake to ensure compliance with new contracts, and would also minimise potential volatility in HERDC return reporting.

However, under **Option 2**, the department would expect to perform increased oversight of R&D income returns and that would be increased levels of communication with university research officers throughout this transition period to ensure that there would be no perverse outcomes from such an approach.

Option 3 – Maintain current arrangements, where HEPs determine the basis of accounting for HERDC returns

The department could continue to maintain the current arrangements of allowing HEPs to submit their *HERDC Research Income Return* on the existing basis of R&D income. In this scenario, HEPs are able to change voluntarily the basis of their accounting for R&D income in line with the changes in

the accounting standards. A HEP would be entitled to continue with their current basis of accounting.

If a HEP decides to apply the new accounting standards to its HERDC returns, they would be required to inform the department of the change in accounting basis before they submitted the next relevant *HERDC Research Income Return*. This would not be consistent with the AASB, and would not be the department's preferred approach.

Q1. Please indicate your preference:

- **Option 1: Immediately adopt AASB 15 and AASB 9, and reconcile existing contracts**
- **Option 2: Immediately adopt AASB 15 and AASB 9 with voluntary adoption of reconciling existing contracts**
- **Option 3: Maintain current arrangements, where HEPs determine the basis of accounting for HERDC returns**
- **None of the above. If so, please outline your alternative proposal.**

Q2. Are there any issues with any of these options you wish to raise?

2 Implementation of new accounting standards for research grants/agreements.

Issue 2: Moving to input matching revenue principles for upfront grant payments

The new accounting standards will significantly alter treatment of upfront payments in research grant agreements and contracts in relation to the way HEPs report research income through HERDC returns.

By submitting HERDC returns using a cash basis, it was acceptable for HEPs to report any and all income receipted into its accounting system. On an input matching revenue approach mandated by AASB 15, upfront payments such as on signing of a contract can only be included as HERDC income when it is deemed to be "earned". However, payments made to the HEP when research milestones are satisfied can be counted.

If AASB 15 was adopted, it is expected that HEPs would have to make adjustments for contract grant payments they have received but have not yet earned, which have been reported in HERDC returns in earlier years.

Q3. How many individual research grant agreements do you expect to be recoded if there was an immediate reconciliation of the new accounting standards from the previous basis?

Q4. If possible, please quantify how much income would need to be recorded as a negative adjustment for the 2020 HERDC Return if these changes were adopted?

Q5. Are there any other technical issues for upfront grant payments that you wish to flag to the department if the *HERDC Specifications* required reconciliation to the new accounting standards?

Issue 3: Scholarship income recognition principles

When and how eligible scholarship income should be recorded for the purposes of the *HERDC Research Income Return* will depend on the requirements of the grant or agreement underpinning the scholarship income.

This will vary, depending on whether AASB 9, AASB 15 or AASB 1058 applies to the scholarship income.

If there is a contractual obligation for the HEP to deliver cash to student recipients, then the scholarship funding would be treated under AASB 9. In this scenario, a HEP would not be able to recognise this funding as R&D income, and instead would recognise this income as a financial liability, which is extinguished when the university provides the requisite scholarship(s) to the student.

An enforceable agreement with specific performance obligations for the transfer of goods and services, but not a contractual obligation to provide cash (i.e. that there is provision to provide tuition services etc.) would be treated under AASB 15. Scholarship funding treated under AASB 15 can only be treated as R&D income when the university satisfies the specific performance obligation by delivering/transferring the good or service (for example, tuition).

If the HEPs recognises scholarship funding under AASB 1058, the HEP will be entitled to record all funding income immediately upon receipt (same as cash basis).

Q6. What technical barriers (if any) do you anticipate in implementing this separation of treatment approaches for scholarship income?

Q7. Are there any technical barriers to recoding existing grants from scholarship funding organisations that would fall under AASB 9 under the new arrangements?

Issue 4: Treatment of R&D income from donations and bequests

The timing of when R&D income derived from donations and bequests is recognised will depend on the structure and conditions of the donation/bequest.

Donations and bequests accompanied by the deductible gift receipt by the ATO cannot be said to have created any other related amounts described in AASB 1058.90, nor can it have material obligations or conditions. This income should be recognised at the time of the receipt of the donation/bequest.

Donations specifically for HDR scholarships should be treated a scholarship income. All other eligible donations/bequests will be treated in line with the relevant accounting standards, depending on the exact terms of the donation/bequest.

Q8. Are there any issues you wish to raise in relation to issue 4? If so, please outline the issue.

Issue 5: Treatment of income derived from the investment of, and interest earned from, donations, bequests and endowments available for the expenditure on R&D

Section 4.2.1 of the 2019 *HERDC Specifications* enables 'Income derived from the investment of, and interest earned from, donations, bequests and endowments available for the expenditure on R&D' to be included as net receipted income which can be included R&D Income Return. This income may be subject to changes to *AASB 9: Financial Instruments*. The department expects HEPs to adopt these changes in line with the standards.

Q9. Are there any issues you wish to raise in relation to issue 5? If so, please outline the issue.

3 R&D income recognition principles (matching principle)

Issue 6: Measuring when performance obligations are satisfied

A consideration in moving from a mainly cash basis of R&D income reporting for HERDC Returns to the reporting research income in line with the adoption of the AASB 15 is measuring when performance obligations are satisfied.

Measuring revenue accurately for some contracts/grants agreements will require an accurate and consistent basis of measuring the progress of said performance obligation.

This can be achieved via an output method where the HEP recognises revenue on direct value metrics to customers (i.e. milestones reached, units produced etc.) or an input method, which recognises revenue on the basis of the HEP's inputs/efforts to satisfy that performance obligation.

The department does not propose to mandate a method for HEPs to recognise the progress of performance obligations. However, the department expects that the method HEPs choose will be consistently applied for that category of research grants.

Q10. Would you prefer:

- i. the option of a HEP choosing either method (input or output) to recognise income?**
- ii. that the department to mandate a consistent approach to performance obligations in the Specifications?**

Issue 7: Variables to consider for revenue recognition

With the adoption of AASB 15, it is expected that HEPs will have to consider variables, which can affect R&D income to be reported over the life of the agreement. Two common situations to illustrate this are:

1. Contracts with refund liabilities, for instance those with clauses where a refund may be required or funding ceases if the HEP does not meet certain performance obligations.
2. Donor co-payments, such as arrangements with rural development corporations, where HEPs are required to make an upfront payment to the RDC before they receive a greater sum of money from the RDC at the end of the grant process.

In both these scenarios, the HEP must estimate the amount of consideration that they expect that they will be entitled to at the time of entering into the agreement. AASB 15 outlines that HEPs can

estimate these values by implementing either the *expected value method* or the *most likely amount method*.

As with Issue 6, the department does not expect to mandate which of these options HEPs should adopt, however, the department does require HEPs to apply a consistent method for the life of the grant/agreement.

HEPs should consider such variables if there is a reasonable basis for the events which would cause a reversal of income to be mandated to occur.

If variable consideration is applied to a grant/agreement, then the department expects that the HEP will update the variable amount in the agreement to represent the circumstances at the end of each reporting period for the grant/agreement.

Q11. To what extent, if any, do you expect issues of variable consideration to arise at your institution?

Q12. Do you expect any issues in implementing a *most likely amount* method when deciding variable consideration?

4 Other issues

Q13. Are there any other issues you wish to raise that has not been covered by this consultation paper? If so, please provide details.

5 Complete list of issues and consultation questions

Issue 1: Timing and adoption approaches to AASB 15 and AASB 9

Q1. Please indicate your preference:

- Option 1: Immediately adopt AASB 15 and AASB 9, and reconcile existing contracts
- Option 2: Immediately adopt AASB 15 and AASB 9 with voluntary adoption of reconciling existing contracts
- Option 3: Maintain current arrangements, where HEPs determine the basis of accounting for HERDC returns
- None of the above. If so, please outline your alternative proposal.

Q2. Are there any issues with any of these options you wish to raise?

Issue 2: Moving to input matching revenue principles for upfront grant payments

Q3. How many individual research grant agreements do you expect to be recoded if there was an immediate reconciliation of the new accounting standards from the previous basis?

Q4. If possible, please quantify how much income would need to be recorded as a negative adjustment for the 2020 HERDC Return if these changes were adopted?

Q5. Are there any other technical issues for upfront grant payments that you wish to flag to the department if the *HERDC Specifications* required reconciliation to the new accounting standards?

Issue 3: Scholarship income recognition principles

Q6. What technical barriers (if any) do you anticipate in implementing this separation of treatment approaches for scholarship income?

Q7. Are there any technical barriers to recoding existing grants with scholarship funding organisations that would fall under AASB 9 under the new arrangements?

Issue 4: Treatment of R&D income from donations and bequests

Q8. Are there any issues you wish to raise in relation to issue 4? If so, please outline the issue.

Issue 5: Treatment of income derived from the investment of, and interest earned from, donations, bequests and endowments available for the expenditure on R&D

Q9. Are there any issues you wish to raise in relation to issue 5? If so, please outline the issue.

Issue 6: Measuring when performance obligations are satisfied

Q10. Would you prefer:

- i. the option of a HEP choosing either method (input or output) to recognise income?

- ii. that the department to mandate a consistent approach to performance obligations in the Specifications?

Issue 7: Variables to consider for revenue recognition

Q11. To what extent, if any, do you expect issues of variable consideration to arise at your institution?

Q12. Do you expect any issues in implementing a *most likely amount* method when deciding variable consideration?

Other issues

Q13. Are there any other issues you wish to raise that has not been covered by this consultation paper? If so, please provide details.

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