

HOW WILL AASB 15 AFFECT REVENUE RECOGNITION FOR CLUBS?

WITH THE APPROVAL OF THE NEW REVENUE STANDARD IN AUSTRALIA, **AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS**, BY THE AUSTRALIAN ACCOUNTING STANDARDS BOARD (AASB), THIS MONTH WE TAKE A CLOSER LOOK AT THE IMPACTS OF THE NEW REVENUE STANDARD ON ENTITIES IN THE NOT-FOR-PROFIT (NFP) SECTOR, IN PARTICULAR CLUBS.

Does AASB 15 apply to not-for-profits?

AASB 15 *Revenue from Contracts with Customers* will apply to contracts of not-for-profit entities that are **exchange transactions**. AASB 1004 *Contributions* will continue to apply to **non-exchange transactions** until the Income from Transactions of NFP Entities project is completed. An exposure draft is expected to be published by the AASB in the first quarter of 2014.

How will AASB 15 impact clubs?

For clubs, AASB 15 may significantly change the pattern of revenue and profit recognition, particularly in respect of joining fees and any incentives given to members to encourage them to join or renew their memberships.

This change in the pattern of revenue and profit recognition may impact bank covenants and internal budgeting processes and may confuse stakeholders. It is likely to require system changes and clubs having to assign value to 'free' gifts or discounts to members.

AASB 15 contains more specific guidance on revenue recognition than the current AASB 118 *Revenue* standard, and in some cases changes the current accounting treatment required under AASB 118.

The following areas are likely to be impacted under AASB 15 for clubs:

- Sign on/joining/admission fees – clubs will need to recognise these fees over the average period of membership and not upfront, resulting in deferred revenue (regardless of whether the fees are non-refundable)
- Special discounts/promotions offered to members as a result of joining/renewing their membership - clubs will need to allocate a portion of the membership fee to these special discount/promotions and recognise revenue as the benefit is used by the member
- 'Free' gifts offered – will result in a portion of the membership fee being allocated to these free gifts and recognised as revenue.

The effective date of AASB 15 is for annual reporting periods beginning on or after 1 January 2017.

Example 1

Club G is a golf club and charges a non-refundable admission fee of \$5,000. Membership fee is \$12,000/year. Club G estimates the average period of membership is 10 years.

Question

How should Club G account for the transaction under AASB 15?

Answer

Under AASB 118, if there is a separate annual subscription, the admission fee is recognised as revenue as soon as it is paid (AASB 118.IE15) i.e. upfront.

However under AASB 15, revenue is only recognised when a distinct good or service is provided. Because the customer (i.e. the member) receives no benefit from just paying the admission fee on its own, to receive the benefit of playing golf, the customer must also pay its annual membership. Therefore, the 'admission' is not considered a 'distinct' good or service, so no revenue is recognised upfront. Under AASB 15, the admission fee is allocated over the average period of membership i.e. 10 years.

The following table sets out the pattern of revenue recognition under AASB 118 and AASB 15 on initial recognition through to year 4.

	DAY 1	YEAR 1	YEAR 2	YEAR 3	YEAR 4
AASB 15	\$0	\$12,500*	\$12,500	\$12,500	\$12,500
AASB 118	\$5,000	\$12,000	\$12,000	\$12,000	\$12,000

*\$12,000 per year plus \$5,000 admission fee allocated over 10 years (\$5,000/10)

Example 2

Club G is a golf club and charges a non-refundable admission fee of \$5,000. Membership fee is \$12,000/year. Club G estimates the average period of membership is 10 years.

Club G is also currently running a promotion. When a new member signs up, they will receive the following:

- A Club G branded golf umbrella
- 30% discount on competition fees for the next year, and
- 10 hours of free golf lessons.

Question

How should Club G account for the transaction under AASB 15?

Answer

Under AASB 15, Club G is providing the following four 'distinct' goods and services:

- Play golf for 10 years
- Club G branded golf umbrella
- 30% discount on competition fees for the next year, and
- 10 hours of free golf lessons.

Total revenue of \$125,000 ($(\$12,000 \times 10) + (\$5,000)$) needs to be allocated to each of the above goods or services based on the relative standalone selling prices of each good or service, and revenue is recognised as and when each good is delivered, or service is performed.

Play golf for 10 years

As discussed in Example 1, there is no separate good or service provided to the customer from the admission fee. The benefit the customer receives is to play golf for 10 years. The standalone selling price to play golf for 10 years is therefore \$125,000 ($\$12,000 \times 10$) + \$5,000. Revenue is recognised over 10 years.

Club G branded golf umbrella

Revenue needs to be allocated to the golf umbrella and recognised when the golf umbrella is provided to the member. Assume the umbrella is sold separately for \$50.

30% discount on competition fees for the next year

Club G needs to determine the standalone selling price of the discount voucher and defer the amount until the voucher is used. Assume that Club G estimates the standalone selling price of the discount is \$300.

10 hours of free golf lessons

Revenue needs to be allocated to the 10 hours of golf lessons and recognised as revenue when each golf lesson is provided. Assume the standalone selling price of 10 hours of golf lessons is \$500.

GOODS OR SERVICE	STANDALONE SELLING PRICE	REVENUE ALLOCATED
Play golf for 10 years (annual membership plus admission fee)	\$125,000	\$124,156 ($\$120,000 / \$125,850 \times \$125,000$)
Golf umbrella	\$50	\$50 ($\$50 / \$125,850 \times \$125,000$)
30% discount on competition fees for the first year	\$300	\$298 ($\$300 / \$125,850 \times \$125,000$)
10 hours of golf lessons	\$500	\$496 ($\$500 / \$125,850 \times \$125,000$)
Total	\$125,850	\$125,000

The tables below set out pattern of revenue recognition under AASB 15 and AASB 118 from initial recognition through to year 3:

GOODS OR SERVICE	REVENUE RECOGNITION UNDER AASB 15			
	Day 1	Year 1	Year 2	Year 3
Play golf for 10 years (annual membership plus admission fee)	-	\$12,416	\$12,416	\$12,416
Golf umbrella	\$50	-	-	-
30% discount on competition fees for the first year	-	\$298	-	-
10 hours of golf lessons	-	\$496	-	-
Total	\$50	\$13,210	\$12,416	\$12,416

REVENUE RECOGNITION UNDER AASB 118				
	Day 1	Year 1	Year 2	Year 3
	\$5,000	\$12,000	\$12,000	\$12,000



In practice under AASB 118, most golf clubs would recognise the promotional 'freebies' and discounts as a cost of sale as and when they are provided. You can see from the above example that the AASB 15 revenue model can result in a significant change to the pattern of revenue compared to the current AASB 118 model.

Impacts of changes on systems and processes

The impacts of AASB 15 are not just changing the pattern of revenue recognition as the above examples have shown. Clubs will also need to think about the related deferred tax impacts, and also about system and process changes that would be required so that revenue is recognised in accordance with the new requirements.

In the above example, processes will have to change to determine all of the separate 'distinct' goods and services promised to the member, and a suitable value must then be determined for each 'promise' made. Clubs that charge one-off, non-refundable admission fees will also need to estimate the average period of membership. Systems will then have to be modified to track when each separate good or service is provided.