|  |  |  |  |
| --- | --- | --- | --- |
| FRD 121 |  |  | Transitional requirements on the application of AASB 15 *Revenue from Contracts with Customers* |
|  |  |  |  |
| Purpose |  | 1.1 | To prescribe the accounting transition adjustments on the application of AASB 15 *Revenue from Contracts with Customers*. |
| 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 | 1. Annual reporting periods commencing on or after 1 January 2018 for for-profit (FP) entities. 2. Annual reporting periods commencing on or after 1 January 2019 for not-for-profit (NFP) entities. |
|  |  | 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 15  An entity shall apply the AASB 15 requirements retrospectively, with the cumulative effect of initially applying this standard against the opening retained earnings at 1 July 2018 for FP entities[[1]](#footnote-1) (date of initial application) and 1 July 2019 for NFP entities[[2]](#footnote-2) (date of initial application). Under this transition method, an entity shall apply this standard retrospectively only to contracts that are not ‘completed contracts’ at the date of the initial application. |
|  |  | 4.2 | Comparative information shall not be restated. |
|  |  | 4.3 | The following practical expedient shall be used when applying this standard retrospectively in accordance with Requirement 4.1 above:   1. For contracts modified before the date of initial application, an entity need not separately evaluate the effect of each contract modification. Instead of accounting for the effects of each contract modification separately, the entity shall reflect the aggregate effect of all past contracts, modifications that occurred before the date of initial application when identifying performance obligations and determining and allocating the transaction price. 2. An entity shall apply the practical expedient consistently to all contracts within the current reporting period. 3. The entity shall disclose the practical expedient used and to the extent reasonably possible, a qualitative assessment of the estimated effect of applying the expedient. |
|  |  | 4.5 | An entity shall provide the following disclosures:   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 111 *Construction Contracts* and AASB 118 *Revenue* and related Interpretations that were in effect before the change; and 4. An explanation of the reasons for significant changes identified. |
| Definition |  | 5.1 | **Contract –** an agreement between two or more parties that creates enforceable rights and obligations. |
|  |  | 5.2 | **Completed contracts –** a completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with AASB 111 *Construction Contracts,* AASB 118 *Revenue,* AASB 1004 *Contributions* and related Interpretations. |
|  |  | 5.3 | 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 costs 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. |
|  |  | 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 15 *Revenue from Contracts with Customers* (September 2018)  AASB 118 *Revenue* (December 2016)  AASB 111 *Construction Contracts* (December 2016)  AASB 1004 *Contributions* (December 2016) |
| Background |  | 8.1 | The Australian Accounting Standards Board (AASB) published AASB 15 to provide a single source of accounting requirements for revenue from contracts with customers, replacing the existing accounting standard AASB 118 *Revenue.* This FRD is issued in August 2019 to prescribe the transitional requirements of AASB 15 *Revenue from Contracts with Customers* on initial adoption of this standard. |

1. 1 January 2018 for 31 December year-end reporters [↑](#footnote-ref-1)
2. 1 January 2019 for 31 December year-end reporters [↑](#footnote-ref-2)