Crowe Horwath.
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Recognising Revenue for School Fees

With the release of AASB 15 *Revenue from Contracts with Customers* (AASB 15) and AASB 1058 *Income of not-for-profit entities* (AASB 1058), it is time for not-for-profit entities to understand the new standards and determine how these will impact their revenue recognition policies.

Independent and private Schools typically have a variety of fees including application fees, enrolment fees, tuition fees, late fees and additional fees for elective subjects. In addition, many of these Schools also collect voluntary donations for building funds or parents and friends associations. Fee structures are even more complex when discounts are provided depending on the number of children per family attending the school or for early payment.

Typical School Fee Structure

Application fees are amounts paid by families to apply for a position at the School. This fee is usually non-refundable and does not guarantee enrolment. This amount charged by the School is to cover the costs associated with consideration of the application.

An ***enrolment fee*** is required to be paid by families when a formal position is offered by the School and the family accepts the position. This fee is typically not refundable. In some instances, this fee is paid in the year proceeding the year the student commences; in other cases, these fees can be paid many years in advance.

Both application and enrolment fees may be levied on a 'per student' or a 'per family' basis, and may depend on whether more than one student applies simultaneously.

Tuition fees and *additional fees for elective subjects* (collectively, tuition fees) are annual fees which typically vary depending on the year level of the student. Payment terms may vary, but are generally due and payable at the commencement of the school term, and may be refundable with one-term notice of withdrawal from the School. Many Schools provide discounts on tuition fees where the family has more than one child attending the School at the same time, or where the payment is made in the year prior.

Late fees may be charged by Schools when tuition fees are overdue. These fees can take many forms; some being a one-off set fee, some graduating the longer the tuition fees remain unpaid.

Voluntary donations are often requested by Schools as a contribution towards a building fund or parents and friends association. Such donations are typically automatically included on the first invoice of the year, although they are not compulsory and are non-refundable when paid.

Implementation issues

In the first instance, Schools need to understand their fee structures and the terms and conditions that govern the relationship with the family in order to determine if fees received are in the scope of AASB 15, AASB 1058 or another accounting standard. School fee structures may vary and these variations should be considered in light of the requirements of the standards.

The following questions identify and discuss just some of the implementation issues that may be faced by Schools with a typical fee structure as they look ahead to the adoption of AASB 15 and AASB 1058. We have assumed that the typical School is a not-for-profit entity (NFP) and the financial year and school year are the same (i.e. years ending 31 December).

Does a contract exist? If so, when?

Determining if and when a contract with a customer exists is not always straight-forward. AASB 15 and its related guidance sets out the requirements for determining if a contract with a customer exists in a not for profit context.

In a School scenario, there is usually always a written agreement between the School and the family. The agreement must include sufficiently specific requirements of the parties, such as the number of students that have been accepted to attend the School, the year their schooling commences, and the terms that govern the family's obligation to pay the fees.

While that seems straight-forward enough, the catch is that the agreement is unlikely to exist until the School has formally offered the position to the family and the family has accepted and paid the enrolment fee. This is most likely the point when an enforceable agreement will commence.

Is the application fee part of the contract? If not, how does it get accounted for?

In many instances, Schools receive a nominal fee when families submit an application for enrolment. At the time of applying for enrolment, the School has no obligation to the family –a place at the School is not guaranteed.

Therefore the payment of the application fee does not create a contract with a customer as there are no enforceable rights on either party. As such, these fees do not form part of the contract, which as discussed above, does not exist until the enrolment fee is paid.

How we see it
Application fees are not part of the contract and in most instances, would be treated as income when received under AASB 1058.

What is the contract term? Is it for the school life of a student (e.g. 6-13 years)?

A formal offer by the School to the family for the student does not typically specify a number of years. However, there is an implicit expectation that the student will remain at the School for the remainder of their school life. Furthermore, Schools would have historical evidence showing the average school life for a student.

The revenue standard specifies that the duration of a contract is the period in which the parties have present enforceable rights and obligations. Whilst most Schools require a notice period for withdrawal (typically a term), there are no additional termination penalties imposed over and above the remainder of the school term that the student would still attend.

Schools are committed to providing schooling to the student for the current year, and practically speaking, the family is required to opt out if they are not returning the following year. The family's right to cancel the contract in this way is similar to a one-year renewal option, rather than the contract being for the period of the school life.

How we see it
In most cases, the contract term is one year with an option to renew each year.

Does a *material right* exist for future years? If yes, what is the accounting impact?

Families may have a number of different rights that they are entitled to as a result of the current enrolment contract. These may include: the renewal option (because the School offer is for a position for the remaining school life); the right to enrol subsequent children at the School; or the right to a discount on fees for subsequent children (sibling discounts).

How we see it
Sibling discounts may give rise to additional complications, such as determining whether the enrolment of the subsequent children gives rise to a contract modification, or should be accounted for as a separate contract.

When a family has a right as a result of the current enrolment contract, the School will need to determine if the right represents a *material right* to be accounted for as a separate performance obligation.

The evaluation of whether a *material right* exists will require significant judgement and a consideration of qualitative and quantitative factors, including whether, for example, the right entitles automatic enrolment for subsequent children, the discount accumulates as the number of children increases and whether the future discount relates to tuition fees and/or enrolment fees. Rights arising through the actions of the School and the expectations that have developed in the community must be considered, even if they aren't formally embedded in the written agreement.

When a material right exists, the portion of revenue related to the material right is recognised in the period after the right is exercised.

How we see it
A *material right* is likely to exist for future years which should be accounted for as a separate performance obligation in the contract. Practically speaking, this means a portion of revenue will be required to be deferred for later years.

How are voluntary non-refundable amounts recognised?

Voluntary contributions towards a building fund or parents and friends association are, generically speaking, a donation to the School. When non-refundable donations are part of a contract, their treatment is dependent upon the terms applicable to the other items in the contract. Where they are paid with tuition fees, which are partially refundable in the case of withdrawal from the School, non-refundable donations should be separated from the tuition fees and accounted for separately. This is because the tuition fees relate to a service (being the schooling), which if not performed is refundable, whereas the donation is non-refundable because there is no performance obligation to be performed.

When voluntary non-refundable donations have been separated from the rest of the contract, they should be assessed under AASB 1058 or another applicable standard.

How we see it
Voluntary non-refundable donations will typically be recognised as income under AASB 1058 when received.

Other implementation issues

In addition to the basic issues outlined above, the adoption of AASB 15 and AASB 1058 may create other implementation issues for Schools especially those with more complex fee structures. Below we identify other implementation issues faced by Schools and some of the factors that should be considered in determining the impact of the new standards.

Computer program

Schools may have a computer program whereby students receive a laptop for use during their school years. Schools will need to consider if the computer program is a separate performance obligation in the contract. Some factors to consider in this regard will be if there is an on-going service provided (e.g. IT support and upgrades), if the computer is returned at the end of the 3 year period, and whether the computer is returned upon withdrawal from the School.

Late fees

Late fees charged on overdue fees would be considered *variable consideration* under AASB 15. Variable consideration requires an estimate of the expected consideration to be received at the commencement of the contract which may create complexities for revenue recognition. This is subject to collectability. Where Schools have a history of delinquent fees which cross more than one year, variable consideration and contract term will need to be carefully considered.

School life

The expected School life can impact the revenue recognition pattern for the material rights included in the contract with the family. Schools should understand when to estimate the expected School life of an individual child or the expected School life of the family when multiple children are expected to attend the School. Schools should also consider if this will be determined on an individual basis or on a portfolio basis.

Other promises in the contract

Schools should consider whether the contract with the family includes other goods or services that are promised to the family during the student's schooling (similar to the computer program). Additional promises should be assessed for performance obligations that are separate from the annual education. Schools should remember to apply the 5 step revenue model to determine how to account for all of the different fees received and services provided.

- **Step 1** Identify the contract
- **Step 2** Identify the performance obligations
- **Step 3** Determine the transaction price
- **Step 4** Allocate the transaction price to the performance obligations
- **Step 5** Recognise revenue when/as the performance obligations are satisfied

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