IFRS® Accounting

Staff paper

Agenda reference: 3

IFRS® Interpretations Committee meeting

Date	**September 2024**
Project	**Recognition of Revenue from Tuition Fees (IFRS 15)**
Topic	**Initial consideration**
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about the period over which an entity that provides educational services (educational institution) recognises revenue from tuition fees when applying IFRS 15 *Revenue from Contracts with Customers*.

2. The objective of this paper is:

    (a) to provide the Committee with a summary of the matter;

    (b) to present our research and analysis; and

    (c) to ask the Committee whether it agrees with our recommendation not to add a standard-setting project to the work plan.

Structure

3. This paper includes:

    (a) background and summary of submission (paragraphs 5–9);

    (b) findings from information request (paragraphs 10–18);

(c) staff analysis (paragraphs 19–24); and

(d) staff recommendation (paragraphs 25–26).

4. There are two appendices to this paper:

(a) Appendix A—suggested wording for the tentative agenda decision; and

(b) Appendix B—submission.

Background and summary of submission

5. In the fact pattern described in the submission (reproduced in Appendix B):

(a) students attend the educational institution for approximately 10 months of the year (academic year) and have a summer break of approximately two months;

(b) during the summer break the school's academic staff take a four-week holiday and use the rest of the time:

(i) to wrap-up the school year just ended (for example, marking tests and issuing certificates); and

(ii) to prepare for the next school year (for example, administering re-sit exams for students who failed in the previous school year and developing schedules and teaching materials); and

(c) during the four-week period in which academic staff are on holiday:

(i) the academic staff continue to be employed by, and receive salary from, the educational institution but they provide no teaching services and do not undertake other activities relating to the provision of educational services;

(ii) non-academic staff of the educational institution provide some administrative support, for example, responding to email enquiries and requests for past records; and

(iii) the educational institution continues to receive and pay for services such as IT services and cleaning.

6. Applying IFRS 15, the educational institution recognises revenue from tuition fees over time. The submission asks about the period over which the educational institution recognises that revenue—that is, evenly over the academic year (10 months), evenly over the calendar year (12 months) or a different time period.

7. The submitter identifies two views:

   (a) *View 1*—recognise revenue from tuition fees evenly over the academic year (that is, 10 months).

   (b) *View 2*— recognise revenue from tuition fees evenly over the calendar year.

8. The submitter notes that while the application of the different views may not necessarily result in a material effect on the educational institution's annual financial statements, it can have a material effect on the educational institution's interim financial statements.

9. The submission—reproduced in Appendix B—includes further information about the two views and the rationale for those views.

Findings from information request

10. We sent an information request to members of the International Forum of Accounting Standard-Setters, securities regulators and large accounting firms. We had also made the submission available on our website.

11. The request asked:

    (a) whether the fact pattern described in the submission—that is, educational institutions that prepare financial statements applying IFRS Accounting Standards—is common.

(b) how such educational institutions recognise revenue from tuition fees—evenly across the calendar year or over a different period.

(c) if different educational institutions recognise revenue from tuition fees differently, whether those differences result from differences in applicable facts and circumstances (for example, differences in how long a holiday period might be) or whether educational institutions with similar facts and circumstances recognise revenue from tuition fees differently.

(d) if educational institutions with similar facts and circumstances recognise revenue from tuition fees differently, whether such diversity is widespread, and which accounting method, if any, is more prevalent in particular jurisdiction(s); and

(e) whether respondents observe questions similar to the one submitted in industries other than educational services. If yes, whether respondents observed diversity in how entities in those industries recognise revenue and whether such diversity is widespread and has a material effect on those entities' financial statements.

12. We received 17 responses—eight from national accounting standard-setters, six from accounting firms, two from accountancy professional bodies and one from an organisation representing a group of securities regulators. The responses represent informal opinions and do not necessarily reflect the official views of those respondents or their organisations.

Is the fact pattern common?

13. Most respondents said the fact pattern is not common because, in their experience:

(a) most educational institutions do not apply IFRS Accounting Standards;

(b) most educational institutions do not prepare interim financial statements; and/or

(c) revenue from tuition fees is not material, for example, in situations in which an educational institution is primarily financed through government grants rather than tuition fees.

14. Two accounting firms and an accountancy professional body identified some jurisdictions in which educational institutions prepare financial statements applying IFRS Accounting Standards, including Australia, China, Hong Kong, Mexico, South Africa, Portugal and some jurisdictions in the Middle East.

Prevalent accounting and existence of diversity

15. Most respondents who commented on the accounting they observed (even if the fact pattern was not widely observed in their jurisdiction) said educational institutions recognise revenue from tuition fees over the academic year.

16. However:

(a) two respondents said educational institutions in South Africa that apply IFRS Accounting Standards recognise revenue over a calendar year. These respondents said educational institutions in South Africa do not prepare interim financial statements. Consequently, the issue described in the submission does not have a material effect on these educational institutions.

(b) one respondent said some educational institutions in Hong Kong recognise revenue from tuition fees over the academic year and some over the calendar year. The respondent said such differences result from differences in the extent and significance of educational activities provided in the summer period compared to the remaining academic period.

(c) one respondent said most educational institutions in Germany that apply IFRS Accounting Standards—mainly private universities—recognise revenue over a calendar year. The respondent said the issue is not widespread in the jurisdiction and any difference in accounting results from differences in applicable facts and circumstances and does not indicate existence of diversity.

Similar questions in other industries

17. A few respondents said similar fact patterns can arise in other industries, however, these respondents did not identify diversity in how entities recognise revenue in those industries. Examples of similar fact patterns in other industries, mentioned by one or two respondents, are revenue from:
    (a) season tickets for a club's football matches;
    (b) provision of maintenance services in IT and construction industries;
    (c) childcare and housekeeping services if there is a commitment to provide services during the year, for example, with a summer or Christmas break; and
    (d) sports and broadcasting services.

18. Two respondents said providing guidance on recognising revenue from tuition fees could result in unintended consequences for other industries.

Staff analysis

Should the Committee add this matter to its standard-setting agenda?

Does the matter have widespread effect and have, or is expected to have, a material effect on those affected?[1]

19. The submission discusses the existence of different views on accounting for the fact pattern. Therefore, the matter that the submission raises is the effect of possible diversity in accounting—for example, the challenge users of the financial statements might face when comparing financial statements of different educational institutions that apply different accounting to the same fact pattern.

[1] Paragraph 5.16(a) of the *Due Process Handbook.*

20. Findings from our information request indicate that while not common, educational institutions in some jurisdictions prepare financial statements applying IFRS Accounting Standards (see paragraphs 13–14). However, responses to our information request did not provide evidence of diversity in how those educational institutions recognise revenue from tuition fees. Most of the respondents who commented on the observed accounting said educational institutions recognise revenue over the academic year. Where some educational institutions recognise revenue differently—for example, in Hong Kong—feedback suggests these differences result from different facts and circumstances.

21. We have also not received evidence of diversity in accounting for similar fact patterns in other industries.

22. Therefore, we have not obtained evidence that the matter has widespread effect. In particular, the application of the different views described in the submission to the fact pattern described in the submission is not widespread.

23. Consequently, we recommend that the Committee not add a standard-setting project to the work plan and instead publish a tentative agenda decision that explains its reasons for not adding a standard-setting project.

24. Our recommendation is based on evidence we obtained to date from our information request. Should there be additional evidence which could lead to a different conclusion on whether the matter has widespread effect, stakeholders will have the opportunity to share this with the Committee by providing feedback to the tentative agenda decision.

Staff recommendation

25. Based on our assessment of the criteria in paragraph 5.16 of the *Due Process Handbook* (as discussed in paragraphs 19–24), we recommend not adding a standard-setting project to the work plan and instead publishing a tentative agenda decision that explains the Committee's reasons for not adding a standard-setting project.

26. Appendix A to this paper suggests wording for the tentative agenda decision.

Questions for the Committee
1. Does the Committee agree with our recommendation not to add a standard-setting project to the work plan? 2. Does the Committee have any comments on the wording of the tentative agenda decision suggested in Appendix A to this paper?

Appendix A—suggested wording for the tentative agenda decision

Recognition of Revenue from Tuition Fees (IFRS 15 *Revenue from Contracts with Customers*)

The Committee received a request about the period over which an educational institution recognises revenue from tuition fees.

Fact pattern:

In the fact pattern described in the submission:

(a) students attend the educational institution for approximately 10 months of the year (academic year) and have a summer break of approximately two months;

(b) during the summer break the school's academic staff take a four-week holiday and use the rest of the time:

  (i) to wrap-up the school year just ended (for example, marking tests and issuing certificates); and

  (ii) to prepare for the next school year (for example, administering re-sit exams for students who failed in the previous school year and developing schedules and teaching materials); and

(c) during the four-week period in which academic staff are on holiday:

  (i) the academic staff continue to be employed by, and receive salary from, the educational institution but they provide no teaching services and do not undertake other activities relating to the provision of educational services;

  (ii) non-academic staff of the educational institution provides some administrative support, for example, responding to email enquiries and requests for past records; and

(iii) the educational institution continues to receive and pay for services such as IT services and cleaning.

Applying IFRS 15, the educational institution recognises revenue from tuition fees over time. The request asks about the period over which the educational institution recognises that revenue—that is, evenly over the academic year (10 months), evenly over the calendar year (12 months) or a different period.

Findings and conclusion

Evidence gathered by the Committee [to date] indicates no diversity in accounting for revenue from tuition fees. Feedback suggests that:

(a) educational institutions that apply IFRS Accounting Standards generally recognise revenue over the academic year; and

(b) any differences in the time period over which these educational institutions recognise revenue from tuition fees result from differing facts and circumstances and are not reflective of diversity in accounting for revenue from tuition fees.

Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Appendix B—submission

B1. We have reproduced the submission below, and in doing so deleted details that would identify the submitter of the request.

Potential Agenda Item:

Subject

B2. Interpretation of IFRS 15 *Revenue from Contracts with Customers*, and clarification on how to account for revenue from tuition fees in the financial statements of an educational institution.

Recognition of revenue from tuition fees (IFRS 15)

B3. The general education service is provided over approximately 10 months followed by a summer vacation of approximately 2 months.

B4. The academic staff's summer vacation commences after and ends before that of students, with an interval of nearly 2 weeks. The objective is to prepare for the coming school year (administer the re-sit exams for students who have failed in the previous year and develop schedules and teaching materials) and close the past school year (marking tests and issuing certificates).

B5. Neither teaching services nor any other activities relating to the education service are required from the academic staff during the summer vacation.

B6. In rare cases, a student may fail in the final exam and would have to do a re-sit exam at the beginning of the next school year.

B7. Student information, including their certificates, are stored in an electronic system managed by the Ministry of Education (MoE).

B8. There was a split in opinion between the constituents; some were of the opinion that general education revenue should be recognized over an academic year that starts and ends on dates determined by the school calendar (approximately 10 months) (opinion 1) and some others viewed that it should be recognized on a straight-line basis over the financial year, including the summer vacation after related academic year (12 months) (opinion 2).

Opposing opinions

(Opinion 1) General education revenue should be recognized over an academic year that starts and ends on dates determined by the school calendar (approximately 10 months)

B9. Revenue from general education services should be recognized in accordance with IFRS 15 *Revenue from Contracts with Customers*, paragraph 2, which requires an entity to "recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." In the case under consideration, the promised service to be transferred to customers is the general education and the consideration to which the entity expects to be entitled in exchange for this service is the tuition fees receivable from students. IFRS 15, para 31, states that "An entity shall recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service to a customer." Since the general education service is transferred over school semesters, related revenues should be recognized over that period (i.e., 10 months), as required by paragraphs 35–37.

B10. Advocates of opinion 1 argue that according to the nature of the case under consideration, an entity does not transfer to customers a significant good or service that is distinct or that can be integrated with other services as required by IFRS 15 that are directly related to the contracted general education services during the summer vacation. In addition, it is not required by national regulations to make any arrangements related to the school year during that vacation (i.e., education services are completely suspended during the summer vacation) and, consequently, the summer vacation can't be considered as part of the school year. The fact that a student remains enrolled in the school during the summer vacation in [the MoE's] system (an electronic system managed by the MoE to store student information) or that a school maintains student files during that vacation does not constitute a performance obligation as required by IFRS 15. Rather, it is a requirement of the education service license.

B11. Considering that the summer vacation is not a performance obligation that is distinct or that can be integrated with other performance obligations, that the entity does not deliver during the summer vacation significant education services closely related to the general education service delivered during the school year, and that an entity satisfies its promise to transfer the education service during the school year independently of the services delivered during the summer vacation (if any), no part of the transaction price should be allocated to the vacation.

B12. For the obligation of an entity to administer a re-sit exam for a student who fails in final exams, it is a rare case and is not significant relative to the education service arrangement as a whole. In addition, an entity should be able to estimate the number of those students based on historical information and can allocate a portion of the transaction price received from contracts in respect of those students who are required to re-sit examinations, in proportion to its efforts to satisfy the performance obligation of administering the re-sit exam, normally at the beginning of the next school year.

B13. While advocates of opinion 1 are fully satisfied that the general education service is delivered only during the academic year, and no other significant services relative to that general education service are delivered during the summer vacation, they would like to also reference the point of view in a paper presented to FASB/IASB Joint Transition Resource Group for Revenue Recognition, published on 26-1-2015, relating to the recognition of revenue from a contract that includes Stand-Ready Performance Obligations. That group argues that even if the performance obligation is to stand ready to deliver a service during a contract term, an entity, for example, in an annual contract to remove snow, should select the best method to measure progress in performance based on its expected efforts to fulfil its performance obligation, which may be substantially greater during the winter months than during the summer months:

B14. In a snow removal scenario, the entity does not know, and it would likely not be able to reasonably estimate, how often (or how much) and/or when it will snow. This suggests the nature of the entity's promise is to stand ready to provide those services when-and-if it is needed. In this scenario, however, as discussed above, the entity might conclude that the customer does not benefit evenly throughout the one-year contract period. As a result, the entity would select a more appropriate measure of progress (for example, one based on its expected efforts to fulfil its obligation to stand-ready to perform, which may be substantially greater during the winter months than during the summer months).

B15. The performance obligation in question is to deliver the general education service over an academic year (i.e., 10 months) and, therefore, the transaction price allocated to the education service should be recognized as the performance obligation is satisfied during the academic year. Since that obligation is satisfied over a period of time, it might be appropriate for entities in education industry to apply an output method set out in IFRS 15 (para. B15) by "recognizing revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract." In the case under consideration, an entity could recognize revenue related to the general education service on a straight-line basis over the academic year period (i.e., 10 months) as the performance obligation over the academic year is the same.

B16. Advocates of opinion 1 argue that delivery of the general education service necessitates preparation activities before students coming back from their vacation and starting the school year (for example, preparation of classrooms and development of school schedules and work papers at the beginning of the school year). It, also, necessitates closing activities of the school year (for example, examination paper marking, determining results and preparing academic certificates). Hence, these activities can be seen as an integral part of the performance obligation (general education service) stated in the contract that is satisfied during the school year. According to the MoE's school calendar, academic staff should return from their vacation prior to the beginning of teaching activities in order to prepare for the school year and should continue working until after the closure of teaching activities in order to finalize the school year. Accordingly, the school year can be deemed the period that starts with the end of staff vacation and ends with the start of staff vacation.

B17. Advocates of opinion 1 hold that since the academic staff is contracted only to deliver the general education service over the school year, their remuneration during their vacation should be considered as a cost to be charged to the same period in which revenue from the related general education service is recognized (i.e., over the school year that starts with the staff resuming work after their vacation and ends with the staff commencing their vacation).

B18. Advocates of opinion 1 assert that an entity's management shall consider whether its contracts with customers include other services that are delivered during the school year or during the summer vacation (for example, training courses to develop knowledge of students or to prepare graduates for colleges) and are distinct and, consequently, should be deemed a separate performance obligation to which a portion of the transaction price can be allocated according to the related requirements in the standard (paras. 27–29).

B19. In conclusion, advocates of opinion 1 confirm that IFRS 15 Revenue from Contracts with Customers is a principle based standard that requires an entity's management to exercise necessary judgement to apply requirements of the standard considering the nature of its contracts with customers, particularly in relation to the identification of performance obligations in a contract and allocation of the transaction price, and to disclose the judgements and changes in the judgements, made in applying the standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. In particular, the standard requires an entity to explain the judgements, and changes in the judgements, used in determining the timing of satisfaction of performance obligations (as detailed in paragraphs 124–125) and determining the transaction price and the amounts allocated to performance obligations (as detailed in paragraph 126).

B20. For the preparation of interim financial statements, advocates of opinion 1 assert that IAS 34 provides guidance relating to presentation and disclosure in interim financial statements of entities whose business is highly seasonal. While paragraphs 37 and 38 of IAS 34 requires seasonal revenues to be recognized when it is received, paragraph 21 encourages an entity whose business is highly seasonal to consider reporting financial information for the twelve months up to the end of the interim period and comparative information for the prior twelve-month period.

(Opinion 2) General education revenue should be recognized on a straight-line basis over the financial year, including the summer vacation after related academic year (12 months)

B21. Advocates of opinion 2 argue that the period of time is determined by governmental regulations, which is out of school's control, and the vacation should be part of that period, whether it falls within the school year or at the end of the school year and after the end of teaching activities but before the performance obligation is fully satisfied. In their view, this opinion is consistent with the current practice that requires revenue from an education activity to be recognized over the calendar year and there is no convincing reason to change this established practice that is widely adopted in the [jurisdiction] since the general education activity is governed by local laws.

B22. Advocates of opinion 2 argue that para. 16 of IFRS 15 requires an entity to recognize the consideration received from a customer as a liability until one of the events in paragraph 15 occurs; i.e., the contract has been terminated or the entity has no remaining obligations to the customer. In the case under consideration, the contract with the customer has not been terminated at the end of the school year. In addition, the contractual relationship and provided services are not restricted to teaching activities that are carried out inside classrooms and concluded at the end of the academic year. Rather, they include following services that are provided after the end of the academic year (throughout the calendar year) as required by laws and regulations:

(a) Marking examinations

(b) Administering re-sit exams, particularly for session 2

(c) Issuing certificates and announcing results

(d) Delivering certificates

(e) Delivering customer files when requested

B23. An entity is obligated to provide to customers above services throughout the calendar year, not just by the end of the academic year. Hence, the contractual relationship and obligations of the entity towards a customer exist during the whole calendar year. Para. 27(a) defines a good or service that is promised to a customer as a good or service that "the customer can benefit from on its own or….". In the case under consideration, the assumption that the provided service is restricted to teaching activities that are concluded by the end of the school year and the customer can benefit from such service on its own is not correct since the customer needs to receive, among other services, certificates and files which are delivered after the end of the school year and throughout the whole calendar year.

B24. Applying paras. 29–30, the provided service is not restricted to teaching activities and it is inseparable from other services (certificates, examinations, etc.). Consequently, requirement in para. 30 applies (the entity accounts for all the goods or services promised in a contract as a single performance obligation).

B25. Applying paras. 31–33 that require an entity to recognize revenue when the customer obtains control of the asset, the customer in the general education industry should receive the academic certificate and student files and move on to the following grade in the same or another entity, failing of which the customer would not be able to obtain the service (control) in full.

B26. In accordance with para. 33 that explains the use of an asset by and the transfer of benefits to a customer, to obtain benefits from the asset in the case under consideration, the customer should receive the academic certificate and student file to deliver them to another education entity or use them in joining the labor market or enrolling in a university.

B27. Advocates of opinion 2 argue that for all reasons above, teaching activities are not separable from subsequent services (certificates and files) and, consequently, teaching activities alone, without such services, do not enable the customer to obtain control of the asset.

B28. Advocates of opinion 2 also assert that the performance obligation of an education entity is one and indivisible and is satisfied over the whole year. Whereas teaching activities are carried out during a specific period of time, its related indivisible services (certificates, files, promotion of students) are provided throughout the year and are not related only to the school or vacation period.