



<b>Project:</b>	Income of NFP entities	<b>Meeting</b>	AASB August 2016 (M153)
		<b>Date</b>	24 August 2016
<b>Topic:</b>	GAAP/GFS differences	<b>Agenda Item:</b>	3.10
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Redeliberations

## Introduction and objective of this paper

- The objective of this paper is to inform the Board of potential GAAP/GFS differences that arise as a result of decisions to date on its Income of Not-for-Profit Entities project, and to seek Board decisions relating to any potential amendments to AASB 10XX or to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

## Background

- Paragraph 38 of [AASB Policies and Processes](#) states:  
  
When developing Standards for application by public sector entities the AASB considers differences between the requirements of the Standards and the basis of preparing information required by Government Finance Statistics (GFS), with a view to removing those differences where appropriate...
- Department of Finance and Australian Bureau of Statistics staff undertook to assist the AASB by identifying potential areas of GAAP/GFS differences arising as a consequence of the issue of AASB 10XX (and AASB 2016-X).<sup>1</sup> In addition to identifying possible GAAP/GFS differences, both parties observed there is likely to be increased harmonisation in certain aspects, including income measurement (for example, the recognition of certain grant income over time), between GAAP and GFS under the forthcoming pronouncements.

## Feedback on ED 260

- The Board sought feedback on GAAP/GFS implications as part of Specific Matter for Comment 10 in ED 260. Constituent feedback to this question was included as part of

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<sup>1</sup> The draft Standards forming the basis of their review were not substantially different from Agenda Paper 3.1 and Agenda Paper 3.2.

Agenda Paper 13.1 from the Board's October 2015 meeting.<sup>2</sup> The staff summary of feedback noted:

*"...Some constituents noted the work of the Australian Bureau of Statistics in revising its Government Finance Statistics (GFS). One constituent expressed the view that the ED proposals would increase harmonisation in revenue measurement between GFS and Generally Accepted Accounting Principles...."*

### **GAAP/GFS differences**

5 The following were identified as aspects that could give rise to a GAAP/GFS difference:

- (a) taxation income;
- (b) property tax income (for example, rates);
- (c) transfer of goods – change in title;
- (d) licences;
- (e) volunteer services;
- (f) provisions; and
- (g) penalties.

### ***Taxation income***

- 6 AASB 10XX notes that an example of the taxable event for income taxes is the end of the taxation period in respect of which taxable income of a taxpayer is determined (Agenda Paper 3.1, paragraph B13). Under GFS, taxation income is recognised progressively as the underlying activity (the earning of income) occurs.
- 7 Staff note that AASB 10XX identifies a different taxable event in respect to income taxes to that in IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*<sup>3</sup>, and is more explicit than in paragraph 30 of AASB 1004 *Contributions*.<sup>4</sup>
- 8 The submission from the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) expressed concern about the proposed accounting requirement.<sup>5</sup> The submission states:

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<sup>2</sup>[http://www.aasb.gov.au/admin/file/content102/c3/M148\\_13.1\\_Staff\\_Paper\\_Staff\\_Summary\\_Comment\\_Letters\\_and\\_Outreach.pdf](http://www.aasb.gov.au/admin/file/content102/c3/M148_13.1_Staff_Paper_Staff_Summary_Comment_Letters_and_Outreach.pdf)

<sup>3</sup> IPSAS 23, paragraph 65a states "... [it] is likely that the taxable event for ... [income] tax is the earning of assessable income during the taxation period by the tax payer".

<sup>4</sup> AASB 1004, paragraph 30 states "For example, taxes are recognised when the underlying transaction or event that gives rise to the GGS's or whole of government's right to collect the tax occurs and can be measured reliably. ... In most cases, taxes will be recognised in the reporting period in which the tax assessments are due to be issued or during which the tax collections are received."

*“... Paragraph AG14 [of ED 260] discusses taxable event and specifies that for income tax this is the end of the taxation period unless otherwise specified in the relevant law. We note that it can be difficult to identify the taxable event and this is further complicated by having recourse to taxation law. For example, this paragraph could be interpreted to mean that tax revenue is zero until 30 June each year, which would result in interim financial reports omitting the major source of government funding. As tax revenue is being collected throughout the year under a pay as you earn scheme, this would not be a faithful representation of the government’s financial position. Alternative interpretations under the relevant legislation is that tax revenue would be recognised at the point when due or when assessable income is generated...”*

- 9 In its February 2015 meeting, the Board had considered the departure from IPSAS 23<sup>6</sup>. The February meeting minutes state:

*“The Board tentatively decided that ... the draft ED should indicate it is likely that the taxable event giving rise to the recognition of tax income by the taxing entity is the end of the taxation period in which taxable income is generated by the taxpayer.”*

- 10 AASB 10XX, as currently drafted, could give rise to a GAAP/GFS difference in interim reporting. To the extent the tax year and the financial reporting year remains the same, it is unlikely to give rise in any GAAP/GFS difference in annual reporting.

### ***Property tax***

- 11 AASB 10XX notes, as an example, that the taxable event for property tax is passing of the date on which the tax is levied, or, if the tax is levied on a periodic basis, the period for which the tax is levied (Agenda Paper 3.1, paragraph B13) – that is, under AASB 10XX, property tax income is likely to be recognised at a point in time. GFS recognises revenue from property taxes over the period to which the levy applies.
- 12 AASB 10XX would continue an existing GAAP/GFS difference that affects only interim reporting.

### ***Transfer of goods – change in title***

- 13 Under GFS, income is generally recognised on a transfer of goods on legal change in title. The timing of revenue recognition under AASB 15 is based on the satisfaction of performance obligations, rather than legal change in title. On gaining control of the good (which may be before legal change in title), AASB 10XX would further require income to be recognised immediately unless a contract liability or other liability (or contribution by owner) is recognised (Agenda Paper 3.1, paragraph 24).

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5 Link to the submission:

[http://www.aasb.gov.au/admin/file/content106/c2/HoTARAC%20submission%20to%20AASB%20Ed%20260%20Not-for-Profit\\_20-08-2015\\_152651.pdf](http://www.aasb.gov.au/admin/file/content106/c2/HoTARAC%20submission%20to%20AASB%20Ed%20260%20Not-for-Profit_20-08-2015_152651.pdf)

6 Agenda Paper 6.2 AASB staff issues paper: Draft ED on Income from Transactions of Not-for-Profit Entities – issues for consideration in approving ED. Link to the Agenda Paper:

[http://www.aasb.gov.au/admin/file/content102/c3/M143\\_6.2\\_NFP\\_Income\\_Staff\\_Issues\\_Paper.pdf](http://www.aasb.gov.au/admin/file/content102/c3/M143_6.2_NFP_Income_Staff_Issues_Paper.pdf)

- 14 The different underlying principles for the timing of income recognition could result in a difference, for some transfers, between GAAP and GFS.

### ***Licences***

- 15 The accounting for licences has been identified as a potential area of difference between GAAP and GFS. Under GFS, income would generally be recognised over the period of the licence. The transfer of a licence to a not-for-profit entity would presently be recognised as income immediately under AASB 10XX (or AASB 15), unless the entity recognises a contract liability in accordance with AASB 15 (or a provision or other credit).
- 16 The accounting for licences, including whether licences should be excluded from the scope of AASB 10XX is addressed in Agenda Paper 3.9.

### ***Volunteer services***

- 17 AASB 10XX requires local governments, government departments, general government sectors (GGSs) and whole of governments to recognise volunteer services where certain conditions are met. AASB 10XX also permits the recognition of volunteer services in other instances (Agenda Paper 3.1, paragraphs 33-34). Volunteer services are not recognised under GFS.
- 18 AASB 10XX would continue an existing GAAP/GFS difference. A difference arises only to the extent that volunteer services are capitalised into the cost of assets or the fair value not fully recognised as income of the period in which the service was received (for example, because the volunteer service was in the nature of a contribution by owner) – that is, where there is no net nil impact to profit or loss of the period.

### ***Provisions***

- 19 Some provisions recognised in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* may not be recognised under GFS (for example, in certain instances where no counterparty is identified). In such instances, GFS may recognise income on a transfer of a resource to the not-for-profit entity before it is recognised in accordance with GAAP.

### ***Tax penalties***

- 20 GFS classifies penalties related to tax law as fines if the penalty is separately identifiable. The draft AASB 10XX considered by Department of Finance and ABS staff included a sentence that stated that penalties imposed by tax authorities are not accounted for as fines and instead are treated as income from taxes (see ED 260, paragraph AG26). (This sentence was inadvertently deleted from Agenda Paper 3.1)

### ***Staff views***

- 21 Staff note the identified differences in the main continue existing GAAP/GFS differences, are differences likely to arise only in respect of interim reporting, or classification differences, or differences that could only be addressed by making changes to underlying principles of AASB 10XX and AASB 15. Accordingly, AASB

staff do not consider it appropriate to amend AASB 10XX to address the identified GAAP/GFS differences.

- 22 AASB staff note that any difference between GAAP and GFS would be disclosed via a reconciliation note with an explanation of the difference as required by AASB 1049 paragraph 41(a). As AASB 1049 details a listing of example reconciliation differences, AASB staff consider it unnecessary to amend AASB 1049 (at least, as part of the current Board project) to identify any of the further potential differences noted in this paper.

**Questions for Board members**

- Q1 Do Board members agree with the staff recommendation not to amend AASB 10XX to address any of the potential GAAP/GFS differences?
- Q2 Do Board members agree with the staff recommendation not to amend AASB 1049 to identify any of the potential differences noted in this paper?