

Currency (Notes and Coins) on issue

Background

1. This paper addresses the accounting for currency (notes and coins) on issue, which is a GAAP/GFS harmonisation issue that arises in practice. It is an issue that is pertinent only to the Australian Government (and certain controlled entities of the Australian Government).
2. In practice, notes are treated differently from coins under GAAP.
 - (a) In relation to notes on issue, the Australian Government recognises a liability:
“Australian currency issued represents a liability of the RBA in favour of the holder. Currency issued for circulation, including demonetised currency, is measured at face value...” (Note 1.115 of Consolidated Financial Statements of the Commonwealth Government 2007-08)
 - (b) In relation to coins on issue, the Australian Government recognises Seigniorage¹ under ‘Other sources of non-taxation revenue’.In contrast, GFS recognises liabilities for both notes and coins on issue.
3. The scope of this paper is limited to the consideration of issues related to the determination of whether a liability or income arises, and accordingly, we do not consider issues relating to assets (inventory) in detail.
4. The objective of this paper is to facilitate initial discussion of the Board to provide staff with some thoughts that can be used as input to developing a more comprehensive issues paper that would express staff views on the issues. This paper does not express staff views on the issues it raises.
5. In identifying the issues in this paper, we have focused on existing Australian Accounting Standards. Accordingly, we have not considered whether current projects on, for example, liabilities (e.g. regarding the treatment of contingent liabilities) or revenue recognition, would help resolve any of the issues.
6. This issues paper:
 - (a) describes the current accounting for currency on issue in practice in Australia, and compares it with GFS;
 - (b) identifies paragraphs from Australian Accounting Standards that might be relevant in determining how currency on issue should be accounted for, or indicate that the Standards need to be supplemented by Aus paragraphs to clarify their requirements in relation to currency on issue; and
 - (c) compares current financial reporting practices for currency on issue in two jurisdictions:
 - (i) IPSASB; and
 - (ii) New Zealand.

¹ “... Seigniorage represents the difference between the face value of coinage sold to the RBA and its cost of production to the Mint plus associated selling and distribution expenses and any additional allowances for unavoidable costs and/or surplus agreed by the Department of the Treasury (i.e. the transfer price).” (Note 1.5 of the Mint Annual Report 2008-09)

Financial reporting of currency on issue in practice in Australia

Notes

7. The *Reserve Bank Act 1959* confers on the Reserve Bank of Australia (RBA) the responsibility for the production and issue, reissue and cancellation of Australia's notes.
8. The RBA manages its note issue responsibilities through its Note Issue Department, which arranges for Australia's currency notes to be printed by Note Printing Australia Limited. Notes are ordered from the RBA by commercial banks and initially distributed from the RBA's National Note Processing and Distribution Centre (operated by Note Printing Australia Limited) to cash centres.
9. When the RBA issues currency notes to the commercial banks, it receives funds in exchange equal to the full face value of the notes issued.
10. The RBA is a public financial corporation (PFC) that is wholly owned and controlled by the Australian Government. Consequently, under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, the RBA is fully consolidated into the Australian Government's whole of government financial statements in accordance with AASB 127 *Consolidated and Separate Financial Statements*, and recognised as a one-line investment in the GGS financial statements in accordance with AASB 1049.

RBA and Australian Government accounting practice

11. The reporting of notes on issue by the RBA in its financial statements and by the Australian Government in its whole of government financial statements is consistent with the GFS approach in that a liability is recognised, equal to the face value of notes issued. Consequently income (and seigniorage) is not recognised on the issue of notes.
 - (a) As at 30 June 2009, the RBA recognised a liability of \$48,087m 'Australian notes on issue'. The RBA Annual Report 2008-09 Note 1(b) states:

“(b) Financial instruments
A *financial instrument* is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The RBA's financial instruments are its ..., notes on issue, The RBA accounts for its financial instruments in accordance with AASB 139 – *Financial Instruments: Recognition and Measurement* and reports these instruments under AASB 7 – *Financial Instruments: Disclosures*.
...
Australian notes on issue
Notes on issue are recorded at face value....”
 - (b) As at 30 June 2008, the Australian Government recognised, in contrast to the RBA, a provision, 'Australian currency on issue' of \$42,064m² (equal to face value of notes issued). This amount was also recognised as a provision in the PFC sector note of the whole of government financial statements. In addition, the RBA financial statements are included in the PFC sector disclosures in the whole of government financial statements. Note 1.115 of the Consolidated Financial Statements of the Commonwealth Government 2007-08 states:

² The consolidated financial statements of the Commonwealth Government for year 2008-09 were unavailable at the time staff developed this issues paper. They are expected to be published in December 2009.

“Australian currency on issue

1.115 Australian currency issued represents a liability of the RBA in favour of the holder. Currency issued for circulation, including demonetised currency, is measured at face value. When the Reserve Bank issues currency notes to the commercial banks, it receives in exchange funds equal to the full face value of the notes issued.”

Coins

12. The Royal Australian Mint is a prescribed agency within the Australian Government portfolio of the Treasury and is the sole supplier of Australia’s circulating coinage.
13. From 1 July 2005, the Mint was prescribed as an agency under the *Financial Management and Accountability Act 1997* within the Treasury portfolio, with responsibility for producing circulating coin for Australia. As a result of the restructure, the Mint received financial autonomy from the Treasury. (page 1 of the Mint Annual Report 2008-09)
14. The Mint is an entity within the GGS. Consequently, under AASB 1049, its financial statements are fully consolidated into both the Australian Government’s GGS and whole of government financial statements.
15. The Mint’s annual report for 2008-09 reveals that its objective is to meet the coinage needs of the Australian economy, collectors and foreign countries through the manufacture and sale of circulating coins, collector coins and other minted like products. The Mint’s collector coin and minted non-coin business is a commercial activity within Government-set parameters.

“The Mint is structured to meet one outcome and one output:

Outcome 1: Manufacture and sale of circulating coins to meet the coinage needs of the Australian economy, and collector coins and other minted products for Australia and foreign countries.

Output 1.1: Royal Australian Mint

The Mint’s activities contributing toward this objective are classified as either Departmental or Administered. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by the Mint in its own right. Administered activities involve the management by the Mint, on behalf of the Government, of the sale of circulating coin and repatriating funds to the Commonwealth through the Seigniorage process.” (Note 1 of the Mint Annual Report 2008-09)

The Mint and Australian Government accounting practice

16. Unlike under GFS, no liability is disclosed as administered by the Mint or recognised by the Australian Government in relation to coins issued. Instead income is disclosed as administered by the Mint and recognised by the Australian Government.
 - (a) For 2008-09, the Mint recognised seigniorage of \$114m as administered non-taxation revenue in the Schedule of Administered Items.
 - (i) Note 1.22 *Reporting of Administered Activities* states that:

“Revenue collected by the Mint for use by the Government rather than the Mint is Administered revenue. Collections are transferred to the Official Public Account maintained by the Department of Finance and Deregulation. All administered revenues are revenues relating to the course of ordinary activities performed by the Mint on behalf of the Australian Government. All administered revenue relates to Seigniorage.”
 - (ii) Note 1.5 *Seigniorage and repurchase of circulating coin* states that:
 - “Seigniorage is collected by the Mint on behalf of the Commonwealth. Seigniorage represents the difference between the face value of coinage sold to the RBA and its

- cost of production to the Mint plus associated selling and distribution expenses and any additional allowances for unavoidable costs and/or surplus agreed by the Department of the Treasury (i.e. the transfer price).”
- “The Mint repurchases mutilated and withdrawn circulating coins on behalf of the Commonwealth. The costs incurred by the Mint in repurchasing circulating coins are offset to an extent by the sale of scrap metal and the balance is supplemented by the Commonwealth via a reduction in the total amount paid to the Commonwealth’s Official Public Account (refer Note 1.22).”
 - “The net revenues from circulating coin sales are not directly available to be used by the Mint for its own purposes and are remitted to the Commonwealth’s Official Public Account. Seigniorage for 2008–09 is \$114.0m (2007–08: \$90.2m).”
- (b) The Australian Government’s whole of government financial statements for 2007-8 recognise seigniorage revenue of \$92m in Note 9 *Other sources of non-taxation revenue*; and
- (c) The Australian Government 2009-10 Budget: Budget Paper No. 1, Statement 9 Budget Financial Statements (Note 6 *Other sources of non-taxation revenue*) shows budgeted seigniorage for the GGS for 2009-10 is \$104m.
- Note 2 *Departures from external reporting standards* states:
- “ABS GFS treats coins on issue as a liability and no revenue is recognised. The ABS GFS treatment of circulating coins as a liability has not been adopted in the budget financial statements or in any reconciliation notes. Instead, the budget financial statements adopt the AAS treatment for circulating coins. Under this treatment seigniorage revenue is recognised upon the issue of coins and no liability is recorded.”

Accounting for currency on issue under GFS

17. Under the ABS GFS Manual (Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005), as noted above, a liability for notes and coins on issue is recognised:
- (a) “..., **liabilities** are obligations to provide economic value to another economic unit and are the counterparts of financial assets held by the claimant economic units. Liabilities are classified to the following categories:
- **Deposits held** - this category includes currency on issue (i.e. coins on issue from the Commonwealth Treasury and notes on issue from the Reserve Bank of Australia), which are liabilities of the government. ...”
(Paragraph 2.188)
- (b) “Seigniorage is the profit earned by the Commonwealth Treasury and the Reserve Bank of Australia (RBA) on the issue of coins and notes (i.e. the difference between the face value of coins and notes and the costs of their production). Because notes and coin on issue are liabilities of the issuer, the face value of note and coin issues, including any seigniorage, is recorded as a financial transaction (i.e. incurring a liability). The costs of minting coin and printing notes are treated as expenses. However, the difference between the face and sale value of commemorative coins sold at greater than face value is recorded as sales of goods and services.” (Paragraph 2.144).

Accounting for currency on issue under Australian Accounting Standards

18. Australian Accounting Standards do not explicitly address currency on issue. Australian Accounting Standards that may be relevant include:
- AASB 102 *Inventories*;
 - AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
 - AASB 139 *Financial Instruments: Recognition and Measurement*; and

- AASB 118 *Revenue*.
19. Under Australian Accounting Standards, it would be expected that the currency production and issue process would be accounted for under AASB 102. Production costs would be inventoried, and the inventory would be held for issue at face value in an exchange transaction. Therefore, inventory would be expected to be measured at cost, because cost would be lower than net realisable value (paragraph 9 of AASB 102). In accordance with paragraph 34 of AASB 102, like GFS, when items of inventory are sold (issued), the carrying amount of the inventory would be recognised as an expense in the period of sale. However, unlike GFS, under GAAP it is debatable whether currency on issue gives rise to a liability or income. The debate arises from the legal nature of currency on issue and how various standards would apply.
 20. In the following sections, the legal nature of currency on issue is described, before noting some possibly relevant aspects of pertinent accounting standards to facilitate the Board's discussion.

The legal nature of currency

Notes

21. The main legislation covering currency notes is the *Currency Act 1965*, the *Crimes (Currency) Act 1981*, the *Reserve Bank Act 1959* and the *Banking Act 1959*.
22. According to the *Reserve Bank Act 1959*, Australian notes are legal tender. The Concise Oxford Dictionary defines legal tender as “currency that cannot legally be refused in payment of debt (usually up to a limited amount for baser coins, etc.)”.
23. Staff did not find any reference in the RBA's 2008-09 financial statements to the RBA having a legal obligation³ in relation to notes on issue. Furthermore, there does not appear to be any explicit requirement which establishes an obligation for the RBA to compensate the holder for cancelling currency, unlike the obligation that exists for the New Zealand Reserve Bank in relation to coins and notes⁴. However, under the RBA Act the functions of the RBA state that it is:

“the duty of the Reserve Bank Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank under this Act and any other Act, other than the Payment Systems (Regulation) Act 1998, the Payment Systems and Netting Act 1998 and Part 7.3 of the Corporations Act 2001, are exercised in such a manner as, in the opinion of the Reserve Bank Board, will best contribute to:

 - (a) the stability of the currency of Australia ...”

It might be argued that this imposes a legal obligation on the RBA, and therefore the Australian Government, to stand ready to redeem notes on issue.

³ A *legal obligation* is an obligation that derives from:
(a) a contract (through its explicit or implicit terms);
(b) legislation; or
(c) other operation of law. (Paragraph 10 of AASB 137)

⁴ *Source: Reserve Bank of New Zealand Act (26. Power of Bank to call in currency)*

Coins

24. The Mint is responsible for producing both Australia's circulating and uncirculating coinage. Circulating coins are coins that are used in everyday cash transactions for the payment of goods and services, and are distinct from uncirculating coins (also referred to as numismatic coins) that are intended for coin collectors and the souvenir/gift market.
25. According to the *Currency Act 1965*, all coins (including collector coins) are legal tender, subject to some limitations.
26. Despite coins on issue having legal tender status, the Mint states that the legislation does not place a legal obligation on it, or the Australian Government, to redeem uncirculating coins. (Source: Royal Australian Mint: *Uncirculating Coins Policy*⁵) Staff have not found any reference in legislation or policy to any obligation of the Mint or the Government, to redeem coins in circulation.

Issues for preliminary discussion of the Board

27. To help facilitate the Board's discussion of the issues, Appendix A of this paper provides a decision tree mapping out the relationships between the issues identified in this paper, and the implications of each based on the relevant accounting standards.

Issue 1: Is accounting for currency on issue a topic the Board should address?

28. Staff have identified the following options:
 - (a) Do nothing, as this is an accounting policy matter for the Australian Government;
 - (b) Do nothing for the time being, and await the developments of the IASB (see comment in paragraph 5 above) and the IPSASB; and
 - (c) Do something and in doing so, take into consideration the developments in New Zealand on this issue and any potential implications for New Zealand/Australian Convergence and apply the *Process for Modifying IFRSs for PBE/NFP*.
29. In relation to paragraph 28(b), staff understand that the IPSASB plans to consider its 2010-2012 Strategic Program at its 8-10 December 2009 meeting, which will include consideration of the priority that the IPSASB might give to public sector specific financial instrument issues, such as currency on issue (see Appendix B to this paper for more details). At this stage, the IPSASB project would not be expected to provide particularly useful input to the AASB's current deliberations.
30. In relation to paragraph 28(c), staff understand that the NZ FRSB has not identified this topic for consideration.

Issue 2: Should notes be treated differently from coins given their different legal nature?

31. The legal nature of notes is described in paragraphs 21-23 of this paper, and the legal nature of coins is described in paragraphs 24-26 of this paper. Based on those descriptions, it appears that, when compared with coins, there might be a greater

⁵ http://www.ramint.gov.au/about/policies/themes_uncirc.cfm (Accessed at 16 November 2009)

justification for concluding that a legal, or at least a constructive, obligation arises in relation to notes.

Issue 3: Does currency on issue give rise to a liability?

32. The issue of currency would give rise to a liability if it meets the definition of a liability under AASB 137 (paragraph 10) namely:
“A *liability* is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.”
33. As paragraph 60 of the AASB *Framework for the Preparation and Presentation of Financial Statements* states, the present obligation could arise either from a legal obligation (binding contracts or statutory requirements) or from a constructive obligation (normal practice or custom, good business relations or acting in an equitable manner).
“An essential characteristic of a liability is that the entity has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. This is normally the case, for example, with amounts payable for goods and services received. Obligations also arise, however, from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. If, for example, an entity decides as a matter of policy to rectify faults in its products even when these become apparent after the warranty period has expired, the amounts that are expected to be expended in respect of goods already sold are liabilities.”
34. As discussed in paragraphs 21–26 above, it might be concluded that there is no obligation of the Australian Government, from a legally enforceable contract or statutory requirement, despite both notes and coins on issue being legal tender. However, it might be argued that a constructive obligation exists for notes and coins on issue, as discussed in the following paragraphs.

Notes

35. Based on the discussion about the legal nature of notes on issue in paragraphs 21-23, it could be argued that a constructive obligation⁶ exists for the RBA and the Government in relation to notes on issue. This could be inferred from statements in the RBA’s annual report for 2008-09 attributable to its note issue role, which is to ensure that the Australian public maintains its confidence in the nation’s currency (see paragraph 23 above). This includes meeting the public’s demand for currency through the issue and the maintenance of high quality banknotes (page 35 of the RBA Annual Report 2008-09); and the RBA’s policy of paying value for severely damaged banknotes that can be authenticated as genuine Australian banknotes (page 38 of the RBA Annual Report 2008-9). During 2008-09, the Bank assessed around 25,000 damaged banknote claims, and paid out around \$8.1 million.

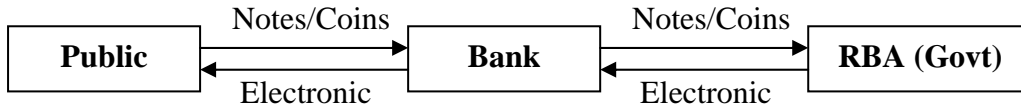
⁶ A constructive obligation is an obligation that derives from an entity’s actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

(Paragraph 10 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*).

Another possible argument for the existence of a constructive obligation is the practice that a member of the public can take notes to a bank and exchange them for another, non-currency (e.g. electronic), medium of exchange; and the bank can then presumably return them to the Government (through the RBA) also in exchange for a non-currency medium of exchange (see Figure 1 below for an illustration).

Figure 1: *Illustration of the exchange between different mediums of exchange*



Coins

36. Although it might be concluded that the Mint, and therefore the Australian Government, does not have a legal obligation regarding coins on issue, it might be argued that there is a constructive obligation that originates from a policy of coin redemption for worn and damaged circulating coins. Furthermore, a view might be that the practice that members of the public can deposit coins with a bank which in turn can presumably return them to the Government in exchange for a non-currency medium of exchange (see Figure 1 of paragraph 35 above) would also indicate the existence of a constructive obligation.
37. The Mint has a Worn and Damaged Circulating Coin Policy because the circulation of worn, damaged or mutilated coins hinders the smooth operation of coin operated and coin handling machines and may confuse or mislead the public. The policy sets out that the Mint accepts for redemption at face value all worn Australian circulating coins and those damaged as a result of normal use, or an accident, from all authorised deposit-taking institutions. This does not include redemption at face value of any Australian circulating coins damaged in any other way, such as through industrial processes, melted coins or coins that are no longer identifiable (mutilated coins). For some mutilated coins, the Mint will reimburse the depositor with the lesser of face value and the metal but with attached conditions, which is the redemption is to be made through the banking system under strict conditions and also accompanied by a claim form.

Issue 3.1: If a liability exists, is it a financial or non-financial liability?

38. If it is established that a liability exists for notes and/or coins, an assessment needs to be made as to whether it is a financial liability, which is defined (in paragraph 11 of AASB 132 *Financial Instruments: Presentation*) as:
 - “... any liability that is:
 - (a) a contractual obligation:
 - (i) to deliver cash or another financial asset to another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
 - (b) a contract that will or may be settled in the entity’s own equity instruments and is:
 - (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity’s own equity instruments; or
 - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose the entity’s own equity instruments do not include

instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments."

39. If the liability is treated as a financial liability then it would be accounted for in accordance with AASB 139. If it is a non-financial liability, AASB 137 would apply. AASB 139 and AASB 137 have different recognition and measurement requirements.
40. To determine whether the liability is a financial liability, consideration needs to be given to whether there is a 'contractual' obligation or a 'contract', which is defined (in paragraph 13 of AASB 132) as:
"In this Standard, 'contract' and 'contractual' refer to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts, and thus financial instruments, may take a variety of forms and need not be in writing."
41. It may be reasonable to presume that there is no contract and therefore no contractual obligation. The legislation does not place a legal obligation on the Mint and thus the Government, to redeem coins (paragraph 26 above) and the RBA and the Government apparently do not have a legally enforceable agreement to redeem notes on issue.
42. Some may argue that although there is no legally enforceable agreement for the redemption of notes and coins which are of high-quality that remain in circulation, notes and coins on issue that are unfit for circulation (and able to be authenticated), give rise to a constructive obligation and therefore a non-financial liability on both the RBA and the Mint, and thus the Government, to redeem them. This obligation arises because unfit notes and coins would obstruct the smooth circulation, which would not be consistent with the RBA's and the Mint's aim of having high quality notes and coins in circulation (paragraphs 35-37 above). Furthermore, both the RBA and the Mint have policies in place for such redemption. Accordingly, a possible method of accounting for notes and coins on issue would be to account for them differently, based on the status (high-quality or unfit for circulation) when in circulation. An issue that might arise under this method would be the way the Government would assess the amount of notes and coins on issue that are unfit for circulation and are also able to be authenticated. A possible method would be the amount of claims the Government processed in the past.

Issue 3.1.1: If the obligation is non-financial in nature, is it a contingent liability or a provision?

43. If a non-financial obligation exists, then AASB 137 would apply. A further determination needs to be made as to whether the obligation is:
- (i) a contingent liability, (defined by paragraph 10 of AASB 137)
"A *contingent liability* is:
(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
(b) a present obligation that arises from past events but is not recognised because:
(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
(ii) the amount of the obligation cannot be measured with sufficient reliability."
; or
- (ii) a provision (defined by paragraph 10 of AASB 137).
"A *provision* is a liability of uncertain timing or amount."

Issue 3.1.2: If there is a non-financial liability, how should it be measured?

44. According to paragraph 36 of AASB 137, a provision is measured at the best estimate of the expenditure required to settle the present obligation at the reporting date. In relation to currency on issue, it is debatable whether the liability should be measured at the cost of production or the face value of the currency issued. Perhaps pertinent to this issue is the fact the Government might use a non-currency medium of exchange, perhaps returning to the holder the medium of exchange that was used to pay for the notes and coins originally. Arguably, if the obligation is expected to be settled in this way, it would need to be measured at face value. In contrast, this measurement might not be appropriate when notes and coins are replaced with the same medium of exchange (notes and coins), as perhaps the liability should then be measured at the cost of production.

Issue 4: Does currency on issue give rise to income?

45. Whether or not income arises would typically be determined as a consequence of whether or not a liability arises. However, for completeness, we address the question of income in its own right below.

46. The issue of currency would give rise to income if it meets the definition of revenue under AASB 118 (paragraph 7) namely:

“Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.”

Thus, the issue of currency would not give rise to income if the assets received from the issue were matched by an equivalent liability.

47. In relation to notes and coins that are lost (e.g. destroyed by fire) and no longer in circulation, the currency could not be presented for redemption even if the Government has a redemption obligation and therefore arguably gives rise to income of the issuer. As noted in paragraphs 35-37 above, both the RBA and the Mint have policies in place that allow damaged currency to be redeemed for face value on several conditions. This redemption policy does not include notes that are not able to be authenticated and coins that are not damaged through normal wear and tear.

48. With regard to notes on issue, the RBA had a policy prior to 2005/6 that took account of the possibility of notes not being presented for redemption as gains in accounting profits. The following extract from Note 1(b) of the RBA Annual Report 2008-09 summarises the RBA’s previous policy and implies its current policy:

“Prior to 2005/06, the RBA periodically adjusts for the notes series that had ceased to be issued, to reflect the likelihood that the remaining notes on issue from these series would not be presented for redemption because they were judged to have been destroyed or were otherwise unavailable for presentation. Under this policy, notes totaling \$133 million were written down and the gains included in accounting profits. As these notes were written down prior to 1 January 2005, the RBA has not had to re-recognise under AIFRS the liability for these notes. If the written-down notes are subsequently presented, the RBA will reinstate the liability for them and charge an expense against profits.”

49. In relation to currency that continues to be in circulation, a question arises as to whether paragraph 12 of AASB 118 means that no revenue should be recognised. It states:

“When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. This is often the case with commodities like oil or milk where suppliers exchange or swap inventories in various locations to fulfil demand on a timely basis in a particular location...”

Based on paragraph 12 of AASB 118, some might argue that the issue of currency is an exchange of goods of a similar nature or value (i.e. the exchange of one medium of exchange for another) and therefore it should not be regarded as a transaction that generates revenue.

However, others might argue that the currency that is issued is of a different nature to the funds received, such as old for new (notes or coins) or different denominations (four 5-cent coins for a 20-cent coin, or two 5-dollar notes for a 10-dollar note), thus it is not the same as swapping milk for milk. Secondly, they argue that the value of the currency that is issued can be measured at production cost, whereas the funds received in return have a higher value. Thus, the currency and the funds do not have a similar value in the same way that two separate litres of milk have the same value. They would conclude that paragraph 12 of AASB 118 is not relevant and that the exchange should be regarded as a transaction that generates revenue.

<i>Issue 5: Does currency on issue give rise to neither a liability nor income?</i>

50. It could be argued that, because the government occupies a unique position in regard to the money supply, the issue of currency as notes and coins is simply a means to facilitate the use of money in the economy. That is, the issue of currency is a service to the economy, rather than a transaction that gives rise to liabilities or income. A view is that this is in contrast to transactions that involve the government reducing the money supply by, for example collecting taxes, or increasing the money supply by, for example, providing a baby bonus. Accordingly, the face value of the notes and coins is not relevant, and the only impact on the government's financial statements should be to recognise the costs associated with providing the service of printing, minting and issuing currency.
51. A variation on the approach in paragraph 50 is to consider circumstances where a bank transfers funds to the government in exchange for notes and coins, or returns damaged notes and coins to the government in exchange for newly-printed notes and newly-minted coins. Such transactions can be regarded as exchanges of items of a similar nature and value that do not give rise to accounting consequences under paragraph 12 of AASB 118 (see paragraph 49 above).

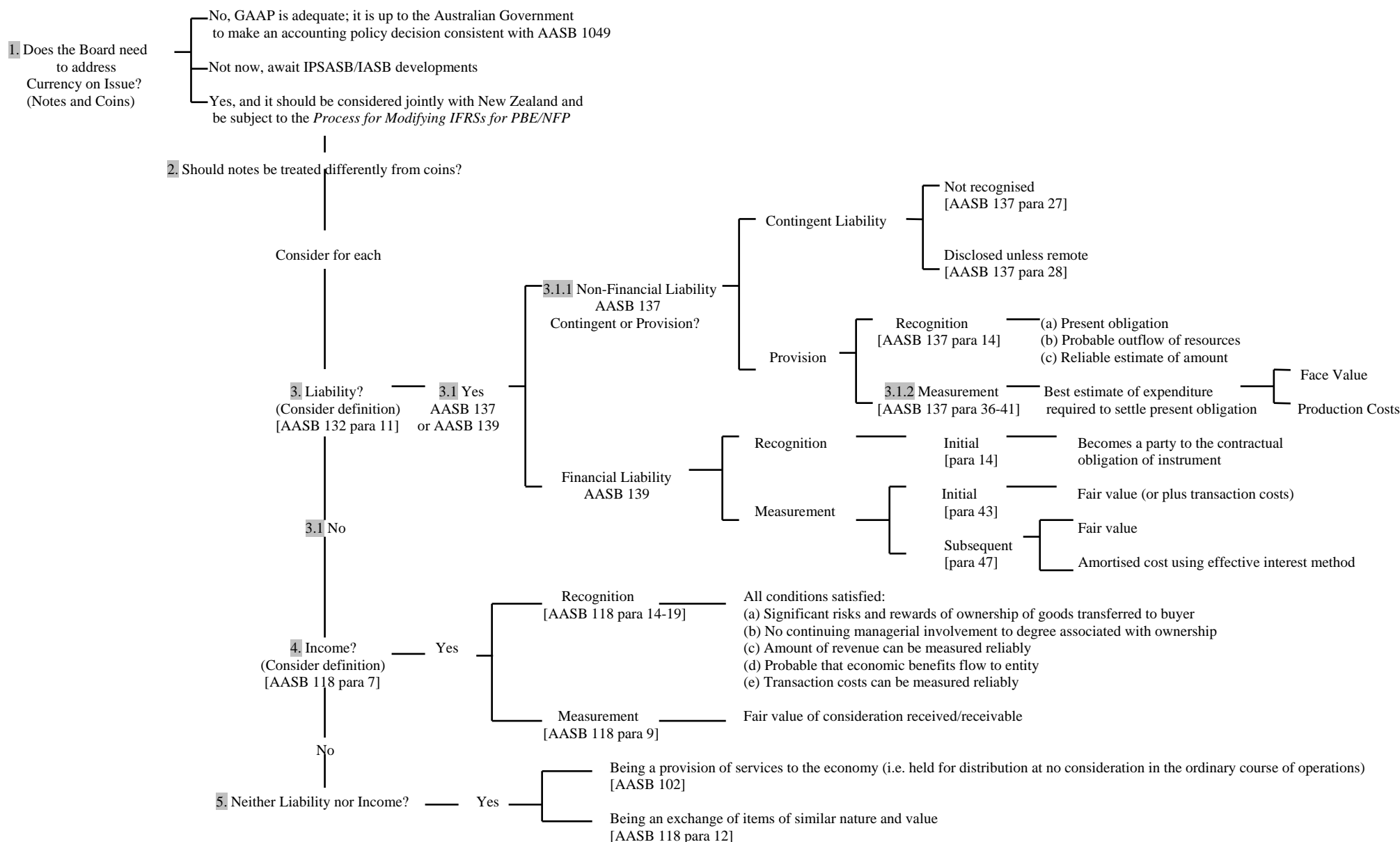
Current accounting practices for currency on issue

52. Appendix B outlines and summarises staff research on the current accounting practice for currency on issue in various other jurisdictions, including the IPSASB, New Zealand, United Kingdom, Canada and USA.

Appendix A

Decision Tree – Accounting for Currency (Notes and Coins) on Issue

Shaded numbers relate to issue numbers in the body of the paper



Appendix B

Staff research – Current accounting practice for currency on issue

IPSASB

Listed under the IPSASB Projects in Progress, IPSASB project Financial Instruments is scheduled to address the issue of currency on issue at the later stage as stated in the following extract⁷:

“Following on from a discussion on the global credit crisis, the IPSASB decided to prioritize the development of IPSASs based on IFRS 7, IAS 32 and IAS 39 in October 2008. The IFRSs do not address public sector specific financial instruments or reporting issues. A later stage of the project will consider public sector specific issues, including items that do not meet the definition of a financial instrument, such as special drawing rights in the IMF, reserve position in the IMF, monetary gold and the issuing of currency.”

New Zealand

Coins and Notes

Reserve Bank of New Zealand:

Under ‘Local Currency Financial Liabilities’, *Currency in Circulation* of \$3,923m is recognised as at 30 June 2009. Note 1(f) *Financial liabilities* of the Reserve Bank of New Zealand Annual Report 2008-09 states:

“Currency in Circulation

Currency issued by the Bank represents a claim on the Bank in favour of the holder. The liability for currency in circulation is recorded at face value in the Statement of Financial Position.”

Interest Income (from New Zealand Government Securities), referred to as *Seigniorage*, of \$261m for 2008-09 is disclosed in Note 23 *Net Investment Income* of the Reserve Bank of New Zealand Annual Report 2008-09 states:

“Registered banks pay the Reserve Bank the face value of the currency being issued to them. These funds are invested in New Zealand government securities, which are included in local currency financial assets on the Reserve Bank’s balance sheet to offset the currency in circulation liability. Currency in circulation is a non-interest bearing liability. However, the New Zealand government securities investment portfolio asset is interest bearing. The income directly associated with the issue of currency is referred to as seigniorage and provides the Bank with its main source of income.”⁸

Government of New Zealand:

Under ‘Liability’, *Issued currency* of \$4,005m is recognised as at 30 June 2009. Note 1 of Financial Statements of the Government of New Zealand 2008-09 states:

“Financial liabilities

...

Currency issued for circulation, including demonetised currency after 1 July 2004, is recognised at face value. Currency issued represents a liability in favour of the holder.”

⁷ <http://www.ifac.org/PublicSector/ProjectHistory.php?ProjID=0060> (Accessed at 24 November 2009)

⁸ <http://www.rbnz.govt.nz/statistics/currency/f3/notes.html> (Accessed at 24 November 2009)