

**Australian Accounting
Standards Board**

Interpretation 1038
December 2007

Contributions by Owners Made to Wholly-Owned Public Sector Entities



Australian Government

**Australian Accounting
Standards Board**

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AASB INTERPRETATION 1038 CONTRIBUTIONS BY OWNERS TO WHOLLY-OWNED PUBLIC SECTOR ENTITIES

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AASB Interpretation 1038 is set out in paragraphs 1 – 44. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation and Application of Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Main Features of Interpretation 1038

This Interpretation is applicable to annual reporting periods beginning on or after 1 July 2008. This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2008, provided there is early adoption for the same annual reporting period of the following Australian Accounting Standards being issued at about the same time, as applicable:

- (a) AASB 1004 *Contributions*;
- (b) AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;
- (c) AASB 1050 *Administered Items*;
- (d) AASB 1051 *Land Under Roads*;
- (e) AASB 1052 *Disaggregated Disclosures*; and
- (f) AASB 2007-9 *Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31*.

This Interpretation is a result of amendments made to the September 2004 version of UIG Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*. Those amendments primarily reflect changes resulting from amendments to AASB 1004 in December 2007 that prescribe requirements for accounting for “restructures of administrative arrangements” as defined in that Standard. In particular, this Interpretation does not apply to a government controlled not-for-profit entity or a for-profit government department in respect of a restructure of administrative arrangements. In relation to other circumstances, this Interpretation establishes criteria for determining whether a transfer of assets (or of assets and liabilities) to wholly-owned public sector entities from other entities in the same group of entities satisfies the definition of “contributions by owners” in AASB 1004, based on the rights held directly or indirectly by the controlling government. For example, such a transfer is a contribution by owners where its equity nature is indicated by the issuance of equity instruments or a formal agreement that establishes a financial interest in the net assets of the transferee that can be sold, transferred or redeemed. A transfer may also be designated in advance or concurrently by the transferor as a contribution by owners. This Interpretation prohibits the redesignation of transfers, and requires the consistent classification by transferors and transferees of both contributions by owners and distributions to owners.

The Board intends to undertake a fundamental review of this Interpretation at a later date.

Comparison with Superseded Requirements

This Interpretation supersedes UIG Interpretation 1038. This Interpretation differs from UIG Interpretation 1038 in that it does not apply to a government controlled not-for-profit entity or a for-profit government department in respect of a restructure of administrative arrangements. This Interpretation has also been updated for changes as a result of AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*.

**AUSTRALIAN ACCOUNTING STANDARDS BOARD
INTERPRETATION 1038**

***CONTRIBUTIONS BY OWNERS MADE TO
WHOLLY-OWNED PUBLIC SECTOR ENTITIES***

REFERENCES

Accounting Standard AASB 118 *Revenue*

Accounting Standard AASB 132 *Financial Instruments: Presentation*

Accounting Standard AASB 1004 *Contributions*

Accounting Standard AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*

Framework for the Preparation and Presentation of Financial Statements

ISSUE

1. The treatment of certain transfers of assets (or assets and liabilities) between public sector entities within the same group of entities that occur as a consequence of a government decision to restructure the activities or functions of its controlled entities, or for other purposes, has been the subject of debate. These transfers are transfers other than those made as consideration for the provision by the transferee of assets or services (including the provision of debt finance) at fair value to the transferor.
2. Australian Accounting Standard AASB 1004 *Contributions* requires contributions by owners and distributions to owners to be recognised directly in equity. The Standard also includes comments concerning whether the transactions of a government department are in the nature of contributions by owners or distributions to owners. Different views have arisen regarding whether, and under which circumstances, the transfers described above should be recognised by the transferees as contributions by owners, and which treatment(s) of these transfers by transferors would be consistent with the treatment by transferees. Concern has been expressed that, in the absence of authoritative

guidance, diverse or unacceptable practice may occur or develop and that this will undermine the relevance and reliability of general purpose financial statements. "Contributions by owners" is defined in AASB 1004.

3. This Interpretation addresses the essential characteristics of contributions by owners and provides indicators of when those characteristics exist. With one significant exception, it applies to parliamentary appropriations and other transfers to statutory authorities, government departments and government-owned corporations from other entities within the same group of entities but only where the transferee is wholly owned by the controlling government. The exception is that this Interpretation does not apply in respect of "restructures of administrative arrangements", as defined in AASB 1004. In such cases the requirements in AASB 1004 apply, which means that government controlled not-for-profit entities and for-profit government departments account for "restructures of administrative arrangements" as transactions with owners in their capacity as owners.
4. This Interpretation does not apply to consolidated financial statements of local governments or whole of government or general government sector financial statements of Federal, State or Territory governments. Furthermore, this Interpretation does not address the issue of whether transferees should classify as income or liabilities transfers to them that do not qualify as contributions by owners.
5. The issues are:
 - (a) What are the primary features of contributions by owners, and are there aspects of public sector entities that affect the determination of whether those features exist?
 - (b) Is it necessary for a contribution by owners to give rise to a financial interest in the net assets of the public sector entity which conveys an entitlement to distributions of a return on investment?
 - (c) Must shares or equivalent instruments be issued if transfers are in the nature of contributions by owners?
 - (d) What is the significance of the form of a transfer for determining whether it qualifies as a contribution by owners?

CONSENSUS

6. This Interpretation applies to transfers of assets, or assets and liabilities, to wholly-owned public sector entities from other entities within the same group of entities, other than:
- (a) transfers made as consideration for the provision by the transferee of assets or services (including the provision of debt finance) at fair value to the transferor; and
 - (b) transfers to or from government controlled not-for-profit entities or for-profit government departments arising as a result of a “restructure of administrative arrangements”, which is defined in AASB 1004 as:

“The reallocation or reorganisation of assets, liabilities, activities and responsibilities amongst the entities that the government controls that occurs as a consequence of a rearrangement in the way in which activities and responsibilities as prescribed under legislation or other authority are allocated between the government’s controlled entities.

The scope of the requirements relating to restructures of administrative arrangements is limited to the transfer of a business (as defined in AASB 3 *Business Combinations*). The requirements do not apply to, for example, a transfer of an individual asset or a group of assets that is not a business.”

Contributions by Owners

7. **A transfer to a wholly-owned public sector entity shall be recognised by the transferee as a contribution by owners when and only when it satisfies the definition of “contributions by owners” in AASB 1004. The criteria set out in paragraphs 8 and 9 shall be applied in determining whether a transfer satisfies the definition of contributions by owners.**
8. **Regardless of the other features or conditions of a transfer, the transfer is a contribution by owners where its equity nature is evidenced by any of the following:**
- (a) **the issuance, in relation to the transfer, of equity instruments which can be sold, transferred or redeemed;**

- (b) a formal agreement, in relation to the transfer, establishing a financial interest in the net assets of the transferee which can be sold, transferred or redeemed; or
 - (c) formal designation of the transfer (or a class of such transfers) by the transferor or a parent of the transferor as forming part of the transferee's contributed equity, either before the transfer occurs or at the time of the transfer.
- 9. The classification of a transfer to a wholly-owned public sector entity from the government or another entity controlled by the same government shall be determined by reference to the rights of the government in respect of the transfer held directly by the government or indirectly through any of its controlled entities. Accordingly, for a transfer to a public sector entity to satisfy part (b) of the definition of contributions by owners in AASB 1004, a right to sell, transfer or redeem the financial interest in the net assets of the transferee shall be held directly or indirectly by the government.
- 10. Where the original transferor is another entity controlled directly or indirectly by the controlling government of the transferee, a transfer to a wholly-owned public sector entity shall be accounted for by the transferee as a transfer from that government or a government-controlled parent of the transferee. Where the controlling government of the transferee is the original transferor, a transfer to a wholly-owned public sector entity shall be accounted for by the transferee as a transfer from the immediate transferor (which would be the controlling government if there was no interposed parent).

Consistent Classification of Contributions by Owners

- 11. If a transfer to a wholly-owned public sector entity is classified by the transferee as a contribution by owners, and the transferor is the transferee's controlling government or another entity controlled directly or indirectly by that government, that transferor shall classify the transfer as:
 - (a) a distribution to owners, if the transferor makes the transfer to all or part of its ownership group; or
 - (b) the acquisition of an ownership interest in the transferee, if the transferor makes the transfer to an investee.

Redesignation of Transfers

12. A transfer designated as a contribution by owners shall not be redesignated as income. Similarly, a transfer designated as income shall not be redesignated as a contribution by owners.

Consistent Classification of Distributions to Owners as Redemptions of Ownership Interests

13. A transfer classified by the transferor as a distribution to owners shall be classified by the immediate transferee as a redemption of part or all of its ownership interest in the transferor when and only when its equity nature is evidenced by any of the following:
- (a) the cancellation, in relation to the transfer, of equity instruments which can be sold, transferred or redeemed;
 - (b) amendment of a formal agreement, in relation to the transfer, to reduce the transferee's financial interest in the net assets of the transferor which can be sold, transferred or redeemed; or
 - (c) formal designation of the transfer (or a class of such transfers) as a redemption of an ownership interest in the transferor, made by the government or a government-controlled parent of the transferee, either before the transfer occurs or at the time of the transfer.

Application

14. This Interpretation applies to public sector entities as follows:
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;
 - (b) general purpose financial statements of each other reporting entity; and
 - (c) financial statements that are, or are held out to be, general purpose financial statements.
15. This Interpretation applies to annual reporting periods beginning on or after 1 July 2008. This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 but

before 1 July 2008, provided there is early adoption for the same annual reporting period of the following Australian Accounting Standards being issued at about the same time, as applicable:

- (a) **AASB 1004 *Contributions***;
 - (b) **AASB 1049 *Whole of Government and General Government Sector Financial Reporting***;
 - (c) **AASB 1050 *Administered Items***;
 - (d) **AASB 1051 *Land Under Roads***;
 - (e) **AASB 1052 *Disaggregated Disclosures***; and
 - (f) **AASB 2007-9 *Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31***.
- 16. The requirements specified in this Interpretation apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**
- 17. When applicable, this Interpretation supersedes UIG Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*, as issued in September 2004.**

DISCUSSION

Definition of Contributions by Owners

18. AASB 1004 defines contributions by owners as “future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the entity which:
- (a) conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
 - (b) can be sold, transferred or redeemed.”

Classification of Transfers as Contributions by Owners

19. However, AASB 1004 requirements relating to contributions by and distributions to owners, other than in relation to restructures of administrative arrangements by government controlled not-for-profit entities or for-profit government departments:
 - (a) do not provide specific guidance on how the definition of contributions by owners should be applied to transfers between public sector entities controlled by the same government;
 - (b) do not provide guidance on the policies to adopt to achieve consistent classification by transferors of transfers recognised by transferees as contributions by owners; and
 - (c) do not apply to statutory authorities and government-owned corporations.
20. This Interpretation adopts the views that the determinant of whether a transfer to a public sector entity should be classified as a contribution by owners is whether the transfer meets the definition of contributions by owners in paragraph 18, and that such classification does not depend:
 - (a) on whether the transfer increases the capacity of the transferee public sector entity to provide services;
 - (b) on the composition and extent of the transfer, for example (other than for government controlled not-for-profit entities or for-profit government departments involved in restructures of administrative arrangements) whether it involves a restructuring; or
 - (c) solely on the nature of the parties to the transfer, for example whether they are for-profit or not-for-profit entities.
21. In addition, authorisation of a transfer by a legally binding authority (such as a statute or ministerial direction) does not of itself indicate that the transfer should be classified as a contribution by owners unless the instrument authorising the transfer designates that the transfer (or a class of similar transfers) has such a nature.

Evidence that Transfers are Contributions by Owners

Issuance of Equity Instruments, or an Ownership Agreement

22. One form of evidence that a transfer is a contribution by owners is the issuance of equity instruments in relation to the transfer. Equity instruments may be shares, equivalent ownership instruments (for example, units of contributed equity in a non-corporate entity such as a trust), or debt instruments (or components thereof) that fail the definition of “financial liabilities” and accordingly are classified as equity under AASB 132 *Financial Instruments: Presentation*.
23. This Interpretation adopts the view that the issuance of equity instruments in relation to a transfer is not essential for the transfer to qualify for recognition as a contribution by owners.
24. Another form of evidence that a transfer is a contribution by owners as defined in paragraph 18 is an agreement in relation to the transfer setting out the respective ownership interests of equity contributors. In substance, the existence of such an agreement is the same as the issuance of equity instruments, because it specifies the respective interests of the various owners of the transferee’s contributed equity.

Designation as Contributions by Owners

25. Designation of a transfer as a contribution by owners by the original transferor, the government or another entity interposed between the original transferor and the ultimate transferee is sufficient for a wholly-owned public sector transferee to classify the transfer as a contribution by owners, if that transfer is not made as consideration for the provision by the transferee of assets or services at fair value to the transferor. However, designation would be insufficient if the transferee is not wholly owned by the transferor or its controlling government. In these circumstances, either the issuance of equity instruments, or the existence of an agreement setting out the respective ownership interests of equity contributors, in relation to the transfer would be necessary for the transfer to be a contribution by owners. This is because where a minority interest exists, these actions are necessary to specify the respective interests of the various owners of the transferee’s contributed equity.

Distributions at the Discretion of the Ownership Group

26. Part (a) of the definition of contributions by owners in paragraph 18 refers to transfers that “give rise to a financial interest in the net assets of the entity which ... conveys entitlement ... to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives ...”.
27. For a transfer to a public sector entity to satisfy part (a) of the definition of contributions by owners in paragraph 18, the distributions of future economic benefits to which the owner obtains an entitlement must include returns on investment, as distinct from returns of investment. A consequence of this requirement is that if a transferee public sector entity is a not-for-profit entity, it will be unlikely that the financial interest arising from the transfer will convey an entitlement to discretionary distributions of future economic benefits. Accordingly, it is likely that a transfer to such an entity can only qualify as a contribution by owners if it satisfies part (b) of the definition of contributions by owners – which requires that the financial interest in the net assets arising from the transfer can be sold, transferred or redeemed.

Financial Interest in the Net Assets of the Entity which can be Sold, Transferred or Redeemed

28. Part (b) of the definition of contributions by owners in paragraph 18 refers to transfers that “give rise to a financial interest in the net assets of the entity which ... can be sold, transferred or redeemed”. If the transferee is a wholly-owned subsidiary of the transferor or a parent of the transferor, the transferor or that parent will almost invariably possess rights of redemption.
29. The requirements of paragraph 10 reflect that a transfer to a public sector entity from another entity controlled directly or indirectly by the same government (other than a transfer made as consideration for the provision by the transferee of assets or services at fair value to the transferor) is, in substance, a transfer from that government. Accordingly, in respect of these rights of redemption:
 - (a) it is irrelevant whether the particular government-controlled transferor is entitled to receive any distribution of future economic benefits comprising a redemption of a financial interest in the net assets of the transferee public sector entity; and

- (b) the rights of the government, held directly by the government or indirectly through any of its controlled entities, determine the classification of transfers to the public sector entity.
- 30. Because any transfer by a parent to its wholly-owned subsidiary (other than a transfer made as consideration for the provision by the transferee of assets or services at fair value to the transferor) has the potential to satisfy the definition of contributions by owners in paragraph 18, this Interpretation adopts the view that it is necessary to refer to the form of the transfer to determine whether it should be classified as a contribution by owners. Accordingly, if the transferee neither issues equity instruments nor is a party to an agreement setting out the respective ownership interests of equity contributors, in relation to the transfer, formal designation that the transfer is to be added to the transferee's contributed equity is necessary to identify contributions by owners (except in relation to government controlled not-for-profit entities or for-profit government departments involved in restructures of administrative arrangements).

Mode and Timing of Designation of Transfers as Contributions by Owners

- 31. Designation of transfers as contributions by owners may occur in a variety of ways which include, but are not limited to, a minute of a decision by the governing body of the contributor, correspondence to the transferee, legislation, administrative orders, and allocation statements, directions or bulletins issued by or on behalf of relevant ministers, each of which specifies that the transfer (or a class of such transfers) is to be added to the transferee's contributed equity. In each case, designation of the transfer or class of transfers is made by the transferor (or a parent of the transferor), because the distinction between an entity's contributed equity and its other components of equity (such as retained earnings and certain reserves) is at the discretion of its owners.
- 32. This Interpretation adopts the view that for the designation of a transfer (either specifically in respect of that transfer or in respect of the same class of transfers) as a contribution by owners to be effective, it should occur at or before the time of the transfer, because:
 - (a) the character of a transfer does not change after it occurs and therefore the character of a transfer should be evident or determined at or before the time of the transfer; and
 - (b) a contribution by owners changes the formal contributed equity of the recipient of that contribution.

33. This requirement removes the potential for deferring the classification of a transfer until the entity has more information about the likely profit or loss for the reporting period and the effect of classifying the transfer as a contribution by owners.

Redesignation

34. This Interpretation does not permit a contribution by owners to be redesignated as income. The definition of income under the *Framework for the Preparation and Presentation of Financial Statements* indicates that an inflow of economic benefits that results in an increase in equity (other than increases relating to contributions from equity participants) has occurred. A transfer to an entity increases its equity only once, and the transferee's equity does not increase at the time of any intended redesignation.
35. As a consequence of the requirement that, where a transfer is classified as a contribution by owners on the basis of its designation, the designation of the transfer or class of similar transfers must occur at or before the time of the transfer, a transfer designated as income cannot be redesignated as a contribution by owners.
36. The prohibitions of redesignations in paragraph 12 do not preclude the redesignation of liabilities as contributed equity when converted to equity because:
- (a) recognition of the liabilities did not involve the recognition of contributions by owners or income; and
 - (b) consistent with AASB 118 and AASB 1004, such redesignations are not recognised as giving rise to income.

Pre-Existing Interest in Net Assets Transferred

37. A pre-existing interest of the government in all of the net assets transferred to a public sector entity does not preclude a transfer to the public sector entity from being a contribution by owners. The contribution to the transferee public sector entity can give rise to a financial interest in the net assets of that transferee, because that financial interest is in respect of the net assets of the transferee rather than the net assets transferred. That financial interest in the net assets of the transferee public sector entity cannot exist until the transfer is made. Until then, the transferor has a direct interest in the assets it contributes to the transferee.

Consistent Classification by Transferor and Transferee

38. This Interpretation adopts the view that a transfer recognised by a transferee public sector entity as a contribution by owners should be classified consistently by the transferor(s) in respect of that transfer.
39. As noted in paragraph 29, a transfer to a public sector entity from another entity controlled directly or indirectly by the same government is, in substance, a transfer from that government. The rights of the government in respect of the transfer, held directly by the government or indirectly through any of its controlled entities, determine the classification of the transfer to the public sector entity. Accordingly, for a transfer to a public sector entity to satisfy part (b) of the definition of contributions by owners in paragraph 18, a right to sell, transfer or redeem the financial interest in the net assets of the transferee must be held by either the government or a government-controlled transferor.
40. Many transfers are made between public sector entities that are controlled by the same parent. Where the original transferor is another entity controlled directly or indirectly by the same government, the chain of entries that would be recorded by the original transferor, the ultimate transferee and the interposed parent (which will be the government or a subsidiary of the government that controls the transferor and the transferee, if there is only one interposed parent) for transfers classified as contributions by owners by transferee public sector entities are:
- (a) the government-controlled transferor (the original transferor) would classify the transfer as a distribution to owners;
 - (b) the immediate recipient of the transfer (the interposed parent) would record the transfer received as income or a redemption of part or all of its ownership interest (investment) in the transferor (see paragraph 43);
 - (c) the interposed parent (the immediate transferor) would record the corresponding transfer made as the acquisition of an ownership interest in the ultimate transferee; and
 - (d) the ultimate transferee would classify the transfer as a contribution by owners.
41. However, the entries described in paragraphs 40(b) and 40(c) for the interposed parent (for example, the controlling government) would not be recognised in that entity's whole of government or general

government sector financial statements because they concern transfers within the group of entities. They would be recognised in that entity's own financial statements, if prepared.

42. Some transfers between public sector entities controlled by the same government have more than one interposed parent. In these cases, the method of accounting for the transfers by each transferor would follow the general approach underlying the specific case explained in paragraph 40 (where there is only one interposed parent). Under the general approach, which is set out in paragraph 11, if the transfer is classified by the ultimate transferee as a contribution by owners, each transferor must classify the transfer as:
- (a) a distribution to owners, if the transferor makes the transfer to all or part of its ownership group; or
 - (b) the acquisition of an ownership interest in the transferee, if the transferor makes the transfer to an investee.
43. Another issue concerning the consistency of treatments by transferors and transferees arises where a transfer between public sector entities within the same group is a distribution to owners in circumstances where the transferee held an equity interest in the transferor. The issue is whether and to what extent the transfer should be accounted for by the transferee (which may be the government) as a redemption of part or all of its ownership interest (investment) in the transferor. The appropriate classification would be clear where, in respect of the transfer, equity instruments are cancelled or a formal ownership agreement is amended. In other circumstances, classification of distributions to owners by the transferee is based on the designation by the government or a government-controlled parent of the transferee of the character of the distribution at or before the time of the transfer. In making this designation, distributions to owners can be classified as redemptions by the transferee of its ownership interest in the transferor only to the extent of the ownership interest recorded by the transferor immediately before the distribution was made.

Application

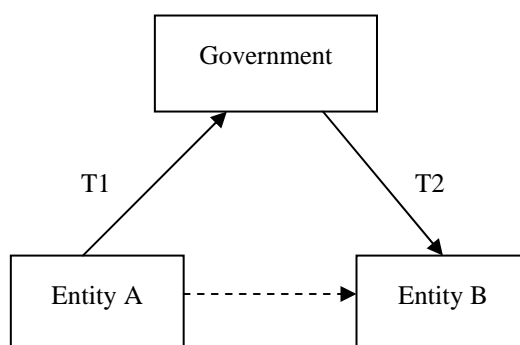
44. This Interpretation applies to public sector entities in relation to certain transfers to or from other entities within the same group. It applies to transferees in relation to these transfers only where they are wholly owned, and to corresponding transferors whether wholly owned or partly owned by the government or a government-controlled parent.

APPENDIX

This appendix accompanies, but is not part of, Interpretation 1038.

- A1. This appendix discusses five scenarios in a whole of government context to illustrate the classification of certain transfers within a group of entities in which the parent is either a government or a subsidiary of a government, in accordance with the Interpretation. It illustrates the position of interposed parents in a series of such transfers, and the application of paragraphs 10, 11 and 13 of the Interpretation to the classification of such transfers within the group. None of the transfers illustrated in this appendix is made as consideration for the provision by the transferee of assets or services at fair value to the transferor. In addition, none of the transfers involves the issuance or cancellation of equity instruments; and none of the transfers are in relation to a government controlled not-for-profit entity or a for-profit government department in respect of a “restructure of administrative arrangements” as defined in AASB 1004 *Contributions*.

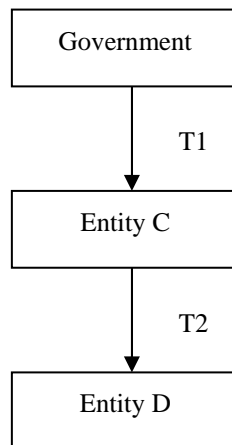
Scenario 1



- A2. In this scenario a transfer of assets from Entity A to Entity B (both wholly-owned public sector entities) is denoted by the broken arrow. Under paragraph 10 of the Interpretation, since the transfer is to a wholly-owned public sector entity from another entity controlled by the same government, the transfer is accounted for as two transfers via that government (T1 and T2, denoted by the unbroken arrows). Entity A is the original transferor. The Government is the interposed parent. It is the “immediate transferee” in respect of Transfer 1 (T1) and the “immediate transferor” in respect of Transfer 2 (T2). Entity B is the ultimate transferee.

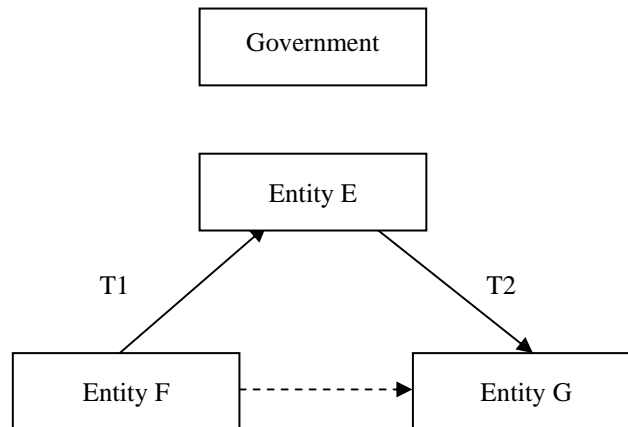
- A3. Where the transfer to Entity B (T2) is classified as a contribution by owners by the Government to Entity B, as the ultimate transferee, the journal entries that would be recorded by the original transferor (Entity A) and the interposed parent (the Government) are:
- (a) the original transferor would classify Transfer T1 to the Government as a distribution to owners, as required by paragraph 11(a) of the Interpretation, regardless of whether the distribution is a distribution of accumulated surpluses or a return of the transferor's contributed equity to the Government;
 - (b) the immediate recipient of Transfer T1 (the interposed parent) would record the transfer received as income or a redemption of part or all of its ownership interest (investment) in the transferor (consistent with paragraph 13); and
 - (c) the interposed parent (the immediate transferor) would record the corresponding transfer made (T2) as the acquisition of an ownership interest in the ultimate transferee, as required by paragraph 11(b).
- A4. In Scenario 1, the original transferor and the ultimate transferee are commonly controlled, but neither entity controls the other. Under Scenario 2, the original transferor and the ultimate transferee are commonly controlled, and both of the transfers are from a parent to its subsidiary.

Scenario 2



- A5. In this scenario the Government transfers assets to Entity C (a wholly-owned subsidiary) and designates the transfer as a contribution by owners (Transfer 1, indicated as T1). Entity C transfers the assets to Entity D, its wholly-owned subsidiary, and designates the transfer as a contribution by owners (Transfer 2, indicated as T2). Because Entity C controls Entity D, it has the authority to designate the nature of Transfer 2, unless the Government has designated the nature of the transfer in its capacity as the ultimate parent.
- A6. For Transfer 1, the Government is the immediate transferor and Entity C is the immediate transferee. For Transfer 2, Entity C is the immediate transferor and Entity D is the immediate transferee. Because Entity C controls Entity D, it is unnecessary to deem Transfer 2 as passing through the Government in order to establish the transferor's financial interest in the transferee's net assets that is essential for a transfer to qualify as a contribution by owners. For both transfers, the transferor accounts for the transfer as the acquisition of an ownership interest in the transferee (as required by paragraph 11(b)), and the transferee accounts for the transfer as a contribution by owners.

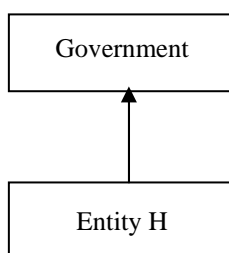
Scenario 3



- A7. In this scenario the Government controls Entity E, which is the sole owner of Entities F and G. The situation is the same as Scenario 1, except that Entity E (rather than the Government) is the interposed parent. Consistent with paragraph 8(c) of the Interpretation, Entity E has the authority to designate the nature of each transfer, unless the

Government has designated the nature of the transfer in its capacity as the ultimate parent. The transfers should be classified by each transferor and transferee in accordance with the classifications outlined in Scenario 1.

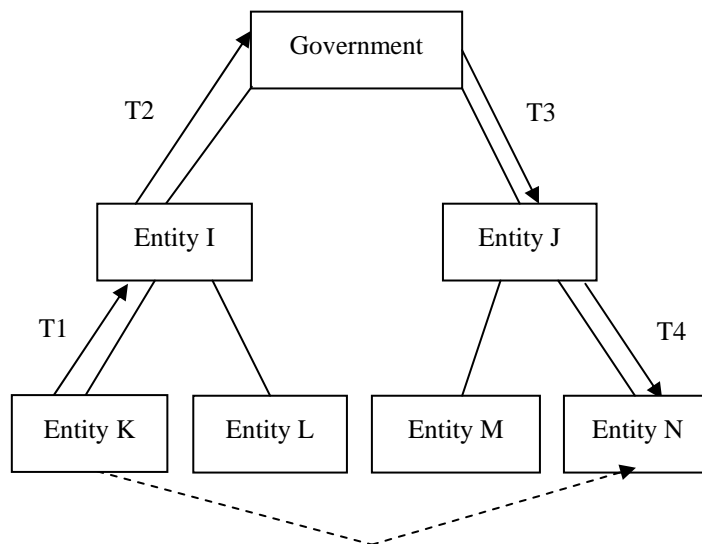
Scenario 4



- A8. In this scenario, Entity H, which is wholly owned by the Government, makes a distribution to owners to the Government. Entity H is the immediate transferor and the Government is the immediate transferee. The Government would, according to its designation of the transfer, classify the transfer received as income or a redemption of part or all of its ownership interest (investment) in the transferor (see paragraph 43 of this Interpretation).

Scenario 5

- A9. Under Scenario 5, transfers occur between public sector entities that are controlled by the same government and have more than one interposed parent. Paragraph 11 of this Interpretation specifies that (regardless of the number of interposed parents involved in the transfer) if the transfer is classified by the ultimate transferee as a contribution by owners, each transferor must classify the transfer as:
- (a) a distribution to owners, if the transferor makes the transfer to all or part of its ownership group; or
 - (b) the acquisition of an ownership interest in the transferee, if the transferor makes the transfer to an investee.
- A10. The application of those policies is illustrated in respect of the following entities and transfers. Control relationships are denoted by unbroken lines without arrows. Entities I and J are wholly owned directly by the Government, and Entities K, L, M and N are wholly owned by Entities I or J.



- A11. In this scenario there is a transfer of assets from Entity K to Entity N, denoted by the broken arrow. However, under paragraph 10 of this Interpretation, since the transfer is to a wholly-owned public sector entity from another entity controlled by the same government, the transfer instead is accounted for as a series of transfers via that government and its directly-controlled entities, denoted by the unbroken arrows (T1, T2, T3 and T4). Entity K is the original transferor. Entity I, the Government and Entity J are interposed parents. Entity N is the ultimate transferee.
- A12. Entity I is the “immediate transferee” in respect of Transfer 1 (T1) and the “immediate transferor” in respect of Transfer 2 (T2). The Government is the “immediate transferee” in respect of Transfer 2 (T2) and the “immediate transferor” in respect of Transfer 3 (T3). Entity J is the “immediate transferee” in respect of Transfer 3 (T3) and the “immediate transferor” in respect of Transfer 4 (T4).
- A13. Where Entity N classifies the transfer to it as a contribution by owners, because of the requirements of the Interpretation, the journal entries that would be recorded by the original transferor and the interposed parents are as follows:
- (a) under paragraph 11(a) of the Interpretation, Entities K and I would classify the transfers they make as distributions to owners;

- (b) according to paragraph 13 of the Interpretation, Entity I and the Government would classify the transfers they receive as income or a redemption of part or all of their ownership interest (investment) in the transferor;
- (c) under paragraph 11(b) of the Interpretation, the Government and Entity J would classify the transfers they make as the acquisition of an ownership interest in the transferee; and
- (d) like Entity N, Entity J would classify the transfer made to it as a contribution by owners.

A14. The journal entries described in these scenarios for interposed parents (for example, the controlling government) and for the Government in Scenario 4 would not be recognised in the consolidated financial statements of those entities where they concern transfers within the group. They would be recognised in each entity's own financial statements, if prepared. Similarly, the foregoing references to classification of transfers by the Government concern the Government in its role as the parent, where the Government or a notional entity (such as "the Crown") prepares separate financial statements in that capacity. In such instances, the Government as ultimate transferee would fall outside the scope of the Interpretation, because it is not a wholly-owned public sector entity, although the Interpretation would represent analogous guidance.