



Australian Government
The Treasury

6 December, 2005

Professor David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
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Victoria, 8007

Dear Professor Boymal

ED 144 - PROPOSED GUIDANCE TO ACCOMPANY AASB 1004

The Australian Treasury welcomes the opportunity to comment on the above exposure draft. We have contributed to the response prepared by the Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC) and we concur with the views expressed in their submission. We do not propose to re-iterate the comments of HoTARAC in this letter. However, we believe it is appropriate to separately emphasise a number of matters that are of particular concern to the Australian Treasury.

Conditions attached to grants and similar non-reciprocal transfers (e.g. grants to the States and appropriations to Commonwealth agencies)

One of the stated purposes of ED144 is to provide guidance on the recognition of income where 'contributions' are subject to conditions.

ED 144 does not provide sufficiently clear guidance of when a stipulation has enough substance for it to become a 'condition' and thus requiring recognition as income only when the obligation is performed. It would be of significant concern to the Australian Treasury that performance criteria in many specific purpose payments to the States and Territories (the States) could be interpreted to be conditions, thereby delaying their recognition by the States. Since the Commonwealth would continue to recognise many of its expenses on the date that the payment is due to be made, there could be a discrepancy in economic flows that would confuse users.

We note that the Commonwealth generally does not impose financial penalties on the States for not meeting the conditions, but instead holds the States governments accountable through public suasion. The guidance needs to be able to recognise such distinctions.

Even if the Commonwealth provides grants to the States that are without conditions, ED 144 does not provide sufficient guidance about when they should be recognised as income. Relying on recognition as income when the right to receive the grant becomes 'enforceable' could lead to confusion due to the uncertain nature of what this actually means in terms of Commonwealth-State relations.

This concern also applies to appropriation revenue recognised by individual Commonwealth Government agencies. The scope for interpretation of 'conditions' is not sufficiently clear to remove doubt.

Recognition of taxation revenue

The Australian Treasury also has strong reservations that the guidance in paragraph G16 unequivocally promulgates use of the economic transaction method for recognition of taxation revenue, particularly income tax, whereas the standards are more equivocal and give recognition to the fact that it might not be possible in some circumstances to reliably measure taxation revenue on this basis.

We believe this is in direct conflict with paragraph 9(c) of the standard which requires that the amount must be capable of being measured reliably.

Conclusion

Accordingly, the Australian Treasury's responses to the questions posed by the Board are as follows:

- a) whether the guidance should be issued – no
- b) the usefulness of the proposed guidance on income recognition - not useful
- c) whether there are situations where a liability would be recognised when income is more appropriate – yes
- d) whether there are situations where income would be recognised when a liability is more appropriate – no comment in this response
- e) whether the distinction between AASB 118 and AASB 1004 is sufficiently clear - no comment in this response
- f) whether contributions in relation to the rendering of services should be treated in accordance with AASB 1004 and the proposed guidance or the rendering of services requirements in AASB 118 - no comment in this response

For issues d) and e), we do not wish to add to the comments provided by HoTARAC.

Yours sincerely

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