

2 December 2005

The Chairman
Australian Accounting Standards Board
PO BOX 204
Collins St West
Victoria 8007

CFO/S9

Dear Sir,

SUBMISSION REGARDING ED 144
Proposed Australian Guidance to accompany AASB 1004 *Contributions*

BACKGROUND

The University of Technology, Sydney accounts for research activities by recognising research revenue as it is received and recognising research expenses as they are incurred. For research revenue received from government there is often a time lag between these events and to the extent that revenue is received in one financial year and not expended until subsequent years, a mismatch, or timing effect, will influence the recorded result. Although this time lag occurs every year, the effect on the recorded result will be more noticeable where the value of the difference between research revenue and research expenses is significant and where it varies from year to year. For the past several years the University has experienced significant growth in research revenue, causing the amount of this timing difference to increase each year. At year-end 2004 the University held around \$5 million in unspent research funds and this is expected to grow to \$7 million or more by year-end 2005. The University believes this represents an overstatement of revenue of \$2 million for the 2005 financial year and although this amount is not material to our revenue, it could be to our reported result. Should the University experience a downturn in research revenue, it would still be obliged to maintain research expenditure at current levels in order to complete existing projects and the timing effect would impact negatively on the recorded result. As the funds are received on the condition that specific research is carried out, this negative effect is beyond the University's control.

COMMENTS ON THE PROPOSAL AS A WHOLE

The University generally supports the proposals outlined in ED 144. The University believes that its tied research funding received from government may qualify as contributions subject to stipulations having the nature of conditions as outlined in ED 144. The guidance may allow the University to create a liability on receipt of these contributions and subsequently recognise an increase in income and a reduction in the liability as the research is carried out. This treatment would allow the University to record an accounting result free of the distortion imposed by the current interpretation of AASB 1004.

COMMENTS ON SPECIFIC MATTERS

- (a) The University welcomes the immediate issue of the guidance provided the changes are highly likely to align with the future direction of the various projects being considered by the AASB. Inconsistent treatments year on year are not desirable. If adoption in 2005 is allowed, it would need to be optional due to our close off date of 31 December. Transitional arrangements would be necessary in order to provide guidance on the treatment of amounts currently held in equity, which may be highly material to our 2005 result, depending on the treatment adopted.
- (b) The guidance makes fairly clear the circumstance in which the contribution could be recognised as a liability, although the University would still need to seek interpretation of G6. Relevant issues here may arise from the phrase “*the donor never enforces* the stipulations attached to a contribution to return an asset”. The University has in the past paid back research grant funding, although it is not clear at this stage whether this was due to enforcement of the stipulation by the donor. We would also require opinion as to whether the experience of other universities can be taken into account.
- (c) The University does not believe it will experience any circumstances where the guidance would require a liability to be recognised where it is more appropriate to recognise revenue
- (d) The University does not believe it will experience any circumstances where the guidance would require revenue to be recognised where it is more appropriate to recognise a liability
- (e) The University has no comment to make regarding the distinction between revenue under AASB 118 and AASB 1004
- (f) The University has no comment to make regarding the treatment of contributions in accordance with the rendering of services under AASB 118.

Thank you for the opportunity to comment on an issue which has been a matter of concern to the University and its Council for some years.

Yours sincerely,

UNIVERSITY OF TECHNOLOGY, SYDNEY

Kevin McCarthy
Chief Financial Officer