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Mr David Boymal  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
COLLINS STREET WEST VIC 8007

5<sup>th</sup> December 2005  
Our ref: DR:NG

Dear David

**Re: ED 144 Proposed Australian Guidance to accompany AASB 1004 *Contributions***

Deloitte Australia welcomes the opportunity to comment on the proposals contained in Exposure Draft ED 144 Proposed Australian Guidance to accompany AASB 1004 *Contributions* (“the ED” or “Australian Guidance”).

Overall we do not support the proposed Australian Guidance to accompany AASB 1004 *Contributions* (“AASB 1004”) at this time.

Our key reasons for not supporting the proposal are outlined below:

International developments

In light of the IPSASB’s current consideration of revenue from non-exchange transactions and the IASB’s stated intention to amend IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (“IAS 20”) we do not believe it is appropriate or necessary to issue Australian Guidance to accompany AASB 1004 at this time.

ED 125 *Financial Reporting by Local Governments*

The ED proposes to amend AASB 1004 due to the apparent reinterpretation of the requirements as foreshadowed in ED 125 *Financial Reporting by Local Governments* (“ED 125”). ED 125 was released on October 2003, and has not been adopted in Australia. Given that it is now 2 years after the issue of ED 125 we question the necessity and relevance of issuing Australian Guidance based on ED 125.

Integration of concepts

We are concerned with the AASB’s incorporation of concepts contained in ED 125 with concepts contained in the IPSAS ED, and that where IPSAS ED paragraphs have been included in the Australian Guidance some of the paragraph wording has been altered.

We are concerned that the Australian Guidance may be misinterpreted, leading to inconsistencies in application.

Overall, it is our opinion that the AASB should wait for the IPSASB to issue its Standard based on the IPSAS ED, and should also wait for the IASB to finalise its deliberations on IAS 20 before making any amendment to AASB 1004.

If you have any questions concerning our comments, please contact Darryn Rundell on (03) 9208 7916.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Darryn Rundell'.

**Darryn Rundell**  
Partner

## MATTERS FOR SPECIFIC COMMENT

***(a) whether guidance should be issued at this stage to accompany AASB 1004, in light of the likelihood of future changes given the various projects being undertaken by the IASB and IPSASB.***

In light of the IPSASB's current consideration of revenue from non-exchange transactions and the IASB's stated intention to amend IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* ("IAS 20") we do not believe it is appropriate or necessary to issue Australian Guidance to accompany AASB 1004 at this time.

***(b) the usefulness of the proposed guidance on the circumstances in which a contribution is initially recognised as a liability, rather than income.***

Although we disagree with issuing Australian Guidance to accompany AASB 1004 at this time, if the guidance were to be issued we do not believe that the proposed guidance is useful in determining when a contribution is initially recognised as a liability, rather than income. In particular, we are concerned that the Australian Guidance may be misinterpreted, leading to inconsistencies in application.

Some of our concerns are outlined below:

- We are concerned with the AASB's incorporation of concepts contained in ED 125 with concepts contained in the IPSAS ED.
- We are concerned that where IPSAS ED paragraphs have been included in the Australian Guidance some of the paragraph wording has been altered. For example:
  - paragraph G4 states that 'contributions may be subject to stipulations', whereas the IPSAS ED refers to stipulations as being either conditions or restrictions. The Australian Guidance provides no reference to restrictions.
  - The wording of paragraph G6, although based on IPSAS ED paragraph 18, may be interpreted differently. The intention of the IPSAS paragraph is to determine whether a stipulation is a restriction or a condition, whereas the Australian Guidance only refers to determining whether a condition exists.
- We are concerned with the AASB's addition of the term 'a return obligation' to paragraph G7. The proposed Australian Guidance reads 'a condition imposes on the recipient entity a performance obligation and a return obligation'. The equivalent IPSASB paragraph, paragraph 20, states 'a condition imposes on the recipient entity a performance obligation'. The Australian Guidance does not elaborate on the meaning and impact of a 'return obligation'.
- We are concerned with the use of paragraphs from ED 125 that are unlikely to be relevant to the majority of entities applying AASB 1004. For example, paragraph G3 provides an example of local government rates and garbage collection services. This example is irrelevant to the majority of entities applying AASB 1004, and therefore not useful guidance. Consideration should be given to revising this example and other local government specific guidance included in the Australian Guidance to ensure that it is relevant to the majority of entities applying AASB 1004.

***(c) whether there are any situations that would result in the guidance leading to a liability being initially recognised, when it is more appropriate for income to be recognised.***

As outlined in our response to question (a) and (b), we do not believe it is appropriate to issue Australian Guidance to accompany AASB 1004 at this time and we have strong reservations as to whether the Australian Guidance will be useful, or consistently interpreted, in determining when a contribution should be initially recognised as a liability or as income.

We therefore provide no comment with respect to whether the Australian Guidance will lead to a liability being initially recognised when it is more appropriate for income to be recognised.

***(d) whether there are any situations that would result in the guidance leading to income being initially recognised, when it is more appropriate for a liability to be recognised.***

As outlined in our response to question (a) and (b), we do not believe it is appropriate to issue Australian Guidance to accompany AASB 1004 at this time and we have strong reservations as to whether the Australian Guidance will be useful, or consistently interpreted, in determining when a contribution should be initially recognised as a liability or as income.

We therefore provide no comment with respect to whether the Australian Guidance will lead to income being initially recognised when it is more appropriate for a liability to be recognised.

***(e) whether the distinction between applying AASB 118 and AASB 1004 is sufficiently clear.***

We believe that the distinction between applying AASB 118 and AASB 1004 is sufficiently clear.

***(f) whether, instead of treating contributions in relation to the rendering of services under AASB 1004 and using the proposed guidance, such amounts should be treated in accordance with the rendering of services requirements in AASB 118.***

We believe that amounts relating to the rendering of services should be treated in accordance with the requirements of AASB 118.