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Sent: Tuesday, 29 December 2009 10:47 AM
To: Angus Thomson
Subject: Recognition of Revenue - Industry Skills Councils

Angus – I have been through ED 180 and it does not address the key issue in relation to the recognition of revenue received by Industry Skills Councils from Commonwealth Government Funding. At the present time funding received by Industry Skills Councils for carrying out a range of responsibilities such as maintaining Training Packages is treated as revenue upon receipt.

The organisations external Auditors have the view that unexpended Government Funding at the end of a financial period should be treated as revenue in the period of receipt rather than treated as a Balance Sheet liability, “unexpended government funding’ and recognised as income over the periods necessary to match them on a systematic basis with the related costs which they are intended to compensate, i.e. the income recognised over the periods in which the expenses are incurred.

The key appears to be the definition of a ‘Contribution’ under AASB 1004, which defines a Contribution as a ‘non reciprocal transfer to the entity’. AASB 1004 then goes on to define a non reciprocal transfer as “A transfer in which the entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party or parties to the transfer”.

The Auditors believe that the service provided by Industry Skills Councils is not a reciprocal exchange with the funding organisation ie. the beneficiaries of the work carried out Industry Skills Councils are students, not the funding authority so there is not, therefore, a reciprocal benefit or exchange.

We believe that the effect of the ‘reciprocal benefit’ condition of the current standard in relation to Industry Skills Councils is contrary to the principles of accrual accounting to wish to make the AASB aware of the issue with a view to having the problem addressed and rectified.

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Organisational Background

Innovation & Business Skills Australia (IBSA) is one of eleven Industry Skills Councils (ISCs) recognised and funded by the Australian Government to fulfil workforce skills development roles and functions.

ISCs are independent, not for profit companies limited by guarantee. The Australian Government provides funding to ISCs to:

- provide integrated industry intelligence and advice to Skills Australia, government and enterprises on workforce development and skills needs;
- actively support the development, implementation and continuous improvement of high quality training and workforce development products and services including training packages;
- provide independent skills and training advice to enterprises, including matching identified training needs with appropriate training solutions; and
- work with enterprises, employment service providers, training providers and government to allocate training places.

Funding Agreement

IBSA receives funding from the Commonwealth Department of Education, Employment and Workplace Relations under a three year Funding Agreement.

In addition, IBSA receives funding from other sources to undertake projects and has a commercial revenue stream from the sale of training related products and services.

Current Treatment of Unexpended Government Revenue

At the present time, unexpended government revenue is treated as revenue upon receipt.

The notes to IBSA's Financial Statements explaining the organisation's accounting policies read:

'Revenue Recognition – Revenue is recognised when the Company obtains control over the assets comprising the revenue. And under 'Government Funding – In accordance with Accounting Standards funding is recognised as revenue at the time the Company obtains control over the assets, this usually occurs upon receipt of the funds'.