

Accounting Standard

AASB 1004
December 2007

Contributions



Australian Government

**Australian Accounting
Standards Board**

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ISSN 1036-4803

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Australian Accounting Standard AASB 1004 *Contributions* is set out in paragraphs 1 – 68 and Appendix A. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 1004 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. 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

Background

Australian Accounting Standards incorporate International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of the Standard in the Australian environment.

Some Australian Accounting Standards also include requirements that are specific to Australian entities. In most instances, these requirements are restricted to not-for-profit entities, including public sector entities, or include additional disclosures that address domestic, regulatory or other issues.

Reasons for Revising this Standard

AAS 27 Financial Reporting by Local Governments, *AAS 29 Financial Reporting by Government Departments* and *AAS 31 Financial Reporting by Governments* were first issued in 1991, 1993 and 1996 respectively. While AASs 27, 29 and 31 had been subject to a number of limited reviews since then, the requirements in these Standards needed a comprehensive review because:

- (a) there had been significant developments in Australian financial reporting, in particular adopting IFRSs within Australian Accounting Standards, for reporting periods beginning on or after 1 January 2005. As a result of these developments, uncertainties emerged as to the application of cross-references to other Australian Accounting Standards and the override provisions in AASs 27, 29 and 31 that made the requirements in AASs 27, 29 and 31 take precedence over other requirements;
- (b) local governments, government departments and governments were subject to requirements that differed from requirements applicable to other not-for-profit entities and for-profit entities contained in Australian Accounting Standards. An objective of the Board is to put in place transaction-neutral standards that will treat like transactions and events consistently;
- (c) the Board had made significant progress in its project on the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) so far as it relates to the General Government Sector (GGS) and the whole of government of the federal, state and territory governments. It was therefore particularly timely to review the requirements in AAS 31;

- (d) they did not reflect contemporary accounting thought; and
- (e) they did not reflect the current style of writing standards, which is to specify principles rather than rules, and requirements rather than encouragements.

The Board intends to continue with its policy of developing a common accounting standards framework for both for-profit and not-for-profit entities whilst acknowledging differences in some areas. The Board is committed to having a platform of topic-based transaction-neutral Standards that will apply to the public sector.

Review of AASs 27, 29 and 31

The Board initiated a project for reviewing the requirements in AASs 27, 29 and 31, divided into two phases comprising a short-term and a longer-term review.

The primary focus in the short-term review has been on relocating, where necessary, the requirements in AASs 27, 29 and 31, substantively unamended (with some exceptions), into topic-based Standards.

In the longer term the focus will be on improving the requirements for each topic-based issue where necessary. The longer-term review will be carried out in stages as outlined in the AASB's Public Sector Policy Paper *Australian Accounting Standards and Public Sector Entities*. A review by the AASB of non-exchange income, which will incorporate a review of contributions, is in progress at the time of revising this Standard.

AASB 1004 in the Context of the Review of AASs 27, 29 and 31

The Board decided to relocate the requirements on contributions from AASs 27, 29 and 31, substantively unamended (with some exceptions, as noted in Appendix B), into AASB 1004.

The Board outlined its short-term proposals in Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*, which was issued in June 2007.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 July 2008. Early adoption is permitted for 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 pronouncements being issued at about the same time, as applicable:

- (a) AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;
- (b) AASB 1050 *Administered Items*;
- (c) AASB 1051 *Land Under Roads*;
- (d) AASB 1052 *Disaggregated Disclosures*;
- (e) AASB 2007-9 *Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31*; and
- (f) AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

Main Requirements

This Standard:

- (a) in its application to contributions to not-for-profit entities:
 - (i) requires income to be measured at the fair value of the contributions received or receivable (paragraph 11);
 - (ii) requires income from a contribution to be recognised when an entity obtains control of the contribution or right to receive the contribution, it is probable the economic benefits comprising the contribution will flow to the entity, and the amount can be measured reliably (paragraphs 12-15);
 - (iii) requires the gross amount of a liability forgiven by a credit provider to be recognised by the borrower as income (paragraphs 16 and 17); and

- (iv) requires certain disclosures relating to contributions of assets and forgiveness of liabilities (paragraph 18);
- (b) in its application to local governments, government departments that are reporting entities, GGSs and whole of governments:
 - (i) provides guidance on the recognition of contributions other than contributions by owners (paragraphs 19-30);
 - (ii) requires contributions of services to be recognised under certain circumstances (paragraphs 44-47); and
 - (iii) requires certain disclosures in relation to contributions recognised as income (paragraphs 60-62);
- (c) in its application to local governments, government departments that are reporting entities, and whole of governments, requires recognised contributions by and distributions to owners to be accounted for as a direct adjustment to equity (paragraphs 48-53);
- (d) in its application to government controlled not-for-profit entities and for-profit government departments that are reporting entities:
 - (i) defines restructures of administrative arrangements and specifies that they are in the nature of transactions with owners in their capacity as owners to be recognised on a net basis (Appendix A and paragraphs 54-56);
 - (ii) requires a transferee in a restructure of administrative arrangements to disclose, where practicable, the expenses and income attributable to transferred activities for the reporting period, showing separately those expenses and income recognised by the transferor during the reporting period (paragraph 57);and
 - (iii) requires certain other disclosures relating to restructures of administrative arrangements (paragraphs 58 and 59); and
- (e) in its application to government departments that are reporting entities:
 - (i) provides guidance on the treatment of taxes collected by a government department (paragraph 31);
 - (ii) provides guidance on the treatment of parliamentary appropriations (paragraphs 32-38);

- (iii) specifies requirements relating to the assumption of a government department's liability by another entity (paragraphs 39-43);
- (iv) requires disclosure of appropriations by class and liabilities that were assumed during the reporting period by the government or other entity (paragraph 63); and
- (v) specifies requirements relating to disclosure of compliance with parliamentary appropriations and other externally imposed requirements (paragraphs 64-68).

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

This Standard retains the requirements in AASB 1004 *Contributions* (as issued in July 2004) and incorporates relevant paragraphs from AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments* in substantially unamended form (with some exceptions, as noted in Appendix B). Accordingly, the development of this Standard did not involve consideration of International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board or International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board.

A review by the AASB of accounting for non-exchange income (which will incorporate a review of contributions) is in progress at the time of issue of this Standard. That review will involve consideration of international pronouncements.

AASB 1004 and IPSASs

Not-for-profit entities that comply with the requirements of AASB 1004 may not simultaneously be in compliance with the requirements of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. This is because the requirements in AASB 1004 are different from those in IPSAS 23. The more significant differences include:

- (a) IPSAS 23 applies to all public sector entities other than government business enterprises, whereas the various requirements in AASB 1004 apply as detailed in the table at paragraph 6;
- (b) IPSAS 23 requires an inflow of resources from a non-exchange transaction (such as a contribution) recognised as an asset to be recognised as revenue, except to the extent that a liability is recognised in respect of the same inflow. Conditions on a transferred asset give rise to a present obligation on initial recognition that is to be recognised as a liability provided it meets the liability recognition criteria. AASB 1004, on the other hand, requires contributions, other than contributions by owners, to be recognised as income when the transferee local government, government department, General Government Sector (GGS) or whole of government obtains control over them, irrespective of whether restrictions or conditions are imposed on the use of the contributions;

- (c) under IPSAS 23 an entity may, but is not required to, recognise services in-kind as revenue and as an asset. Under AASB 1004, contributions of services to local governments, government departments, GGSs and whole of governments are recognised as income when, and only when, the fair value of those services can be reliably determined, and the services would have been purchased if they had not been donated; and
- (d) AASB 1004 includes a number of disclosure requirements that are not included in IPSAS 23, such as the requirement for government departments to disclose information relating to compliance with parliamentary appropriations and other externally imposed requirements.

AASB 1004 and IFRSs

Not-for-profit entities that comply with the requirements of AASB 1004 may not simultaneously be in compliance with the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. This is because the recognition criteria in AASB 1004 are different from those in IAS 20.

AASB 1004 requires contributions received or receivable to be recognised immediately as revenue when:

- (a) the entity obtains control of the contribution or the right to receive the contribution;
- (b) it is probable that the economic benefits comprising the contribution will flow to the entity; and
- (c) the amount of the contribution can be measured reliably.

In contrast, IAS 20 requires government grants to be recognised as income on a systematic basis over the periods necessary to match them with the related costs which they are intended to compensate or by deducting the grant in arriving at the carrying amount of the asset when there is reasonable assurance that:

- (a) the entity will comply with the conditions attaching to them; and
- (b) the grants will be received.

ACCOUNTING STANDARD AASB 1004

The Australian Accounting Standards Board makes Accounting Standard AASB 1004 *Contributions* under section 334 of the *Corporations Act 2001*.

Dated 13 December 2007

D.G. Boymal
Chair – AASB

ACCOUNTING STANDARD AASB 1004

CONTRIBUTIONS

Application

- 1 Subject to paragraphs 2 to 5, this Standard applies to:**
 - (a) each not-for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
 - (b) general purpose financial statements of each other not-for-profit entity that is a reporting entity;**
 - (c) financial statements of not-for-profit entities that are, or are held out to be, general purpose financial statements; and**
 - (d) financial statements of General Government Sectors (GGSs) prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.**
- 2 Paragraphs 31 to 43 and 63 to 68 only apply to government departments that are reporting entities.**
- 3 Paragraphs 19 to 30, 44 to 47 and 60 to 62 only apply to local governments, government departments that are reporting entities, GGSs and whole of governments.**
- 4 Paragraphs 48 to 53 only apply to local governments, government departments that are reporting entities, and whole of governments.**

5 Paragraphs 54 to 59 only apply to government controlled not-for-profit entities and for-profit government departments that are reporting entities.

6 The following table identifies which paragraphs are applicable to each type of entity to which this Standard applies:

Type of entity to which the paragraph is applicable	Content of paragraphs	Para No.
Not-for-profit private sector entities	Measurement of contributions	11
	Recognition of contributions of assets	12 – 15
	Liabilities forgiven	16 – 17
	Disclosures	18
Not-for-profit government departments	Measurement of contributions	11
	Recognition of contributions of assets	12 – 15
	Liabilities forgiven	16 – 17
	Disclosures	18
	Recognition of contributions other than contributions by owners	19 – 30
	Taxes collected by government departments	31
	Parliamentary appropriations	32 – 38
	Liabilities of government departments assumed by other entities	39 – 43
	Contributions of services	44 – 47
	Contributions by owners and distributions to owners	48 – 53
	Restructure of administrative arrangements	54 – 59
	Disclosure of contributions	60 – 62
	Government department disclosures	63
	Compliance with parliamentary appropriations and other externally imposed requirements	64 – 68
For-profit government departments	Recognition of contributions other than contributions by owners	19 – 30
	Taxes collected by government departments	31
	Parliamentary appropriations	32 – 38
	Liabilities of government departments assumed by other entities	39 – 43
	Contributions of services	44 – 47
	Contributions by owners and distributions to owners	48 – 53

For-profit government departments (cont)	Restructure of administrative arrangements	54 – 59
	Disclosure of contributions	60 – 62
	Government department disclosures	63
	Compliance with parliamentary appropriations and other externally imposed requirements	64 – 68
Other government controlled not-for-profit entities	Measurement of contributions	11
	Recognition of contributions of assets	12 – 15
	Liabilities forgiven	16 – 17
	Disclosures	18
	Restructure of administrative arrangements	54 – 59
Local governments	Measurement of contributions	11
	Recognition of contributions of assets	12 – 15
	Liabilities forgiven	16 – 17
	Disclosures	18
	Recognition of contributions other than contributions by owners	19 – 30
	Contributions of services	44 – 47
	Contributions by owners and distributions to owners	48 – 53
	Disclosure of contributions	60 – 62
Whole of governments	Measurement of contributions	11
	Recognition of contributions of assets	12 – 15
	Liabilities forgiven	16 – 17
	Disclosures	18
	Recognition of contributions other than contributions by owners	19 – 30
	Contributions of services	44 – 47
	Contributions by owners and distributions to owners	48 – 53
	Disclosure of contributions	60 – 62
GGSs	Measurement of contributions	11
	Recognition of contributions of assets	12 – 15
	Liabilities forgiven	16 – 17
	Disclosures	18
	Recognition of contributions other than contributions by owners	19 – 30
	Contributions of services	44 – 47
	Disclosure of contributions	60 – 62

- 7 This Standard applies to annual reporting periods beginning on or after 1 July 2008.
- 8 This Standard 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 pronouncements being issued at about the same time, as applicable:
- (a) AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;
 - (b) AASB 1050 *Administered Items*;
 - (c) AASB 1051 *Land Under Roads*;
 - (d) AASB 1052 *Disaggregated Disclosures*;
 - (e) AASB 2007-9 *Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31*; and
 - (f) AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.
- 9 The requirements specified in this Standard apply to the complete set of financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.
- 10 When applicable, this Standard, together with the Standards referred to in paragraph 8, supersede:
- (a) AASB 1004 *Contributions* as notified in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004;
 - (b) AAS 27 *Financial Reporting by Local Governments*, as amended;
 - (c) AAS 29 *Financial Reporting by Government Departments*, as amended; and
 - (d) AAS 31 *Financial Reporting by Governments*, as amended.

Measurement of Contributions

- 11 Income shall be measured at the fair value of the *contributions* received or receivable.

Recognition of Contributions of Assets

- 12 **Income arising from the contribution of an asset to the entity shall be recognised when, and only when, all the following conditions have been satisfied:**
- (a) **the entity obtains control of the contribution or the right to receive the contribution;**
 - (b) **it is probable that the economic benefits comprising the contribution will flow to the entity; and**
 - (c) **the amount of the contribution can be measured reliably.**
- 13 A contribution occurs when an entity receives an asset, including the right to receive cash or other forms of asset without directly giving approximately equal value to the other party or parties to the transfer; that is, when there is a *non-reciprocal transfer*. Contributions would, for example, include donated assets. Contributions that are income exclude *contributions by owners*.
- 14 In some cases it may be difficult to determine whether the entity has control of a contribution or the right to receive a contribution. One such case could be economic benefits expected to be received under a multi-year public policy agreement. The entity does not obtain control of a contribution under such an agreement until it has met conditions or provided services or facilities that make it eligible to receive a contribution. On this basis, under multi-year public policy agreements, income would be recognised only in relation to contributions received or receivable under policy agreements. Another example is where a donor pledges a donation to an entity. If the pledge is not enforceable against the donor, the entity does not control the contribution.
- 15 In some cases it may be difficult to determine whether the entity is giving approximately equal value to the other parties to a transfer. This is particularly the case where, for example, fees are charged by a not-for-profit entity for the potential use of a general pool of facilities. In circumstances where clubs and professional associations charge fees in return for contributors being able to enjoy the use of facilities, receive publications or practice in a particular vocation for a defined period, an exchange transaction can be presumed and the fees would not be treated as contributions. The recipient of the fees would have a contractual or constructive obligation to refund some or all fees if it were unable to provide the facilities or services. In circumstances where the benefits to contributors are only nominal, such as

acknowledgment letters, general information about the entity's activities and satisfaction of contributors' altruistic goals, the fees are in the nature of contributions.

Liabilities Forgiven

- 16 The gross amount of a liability forgiven by a credit provider shall be recognised by the borrower as income.**
- 17 Where equity is substituted for a liability, this is not treated as a forgiveness.

Disclosures

- 18 The following information shall be disclosed:**
- (a) **contributions of assets, including cash and non-monetary assets; and**
 - (b) **the forgiveness of liabilities.**

Recognition of Contributions, other than Contributions by Owners, by Local Governments, Government Departments, GGSs or Whole of Governments

Paragraphs 19 to 30 of this Standard apply only to local governments, government departments, GGSs and whole of governments.

Contributions

- 19 Contributions, other than contributions by owners, to a local government, government department, GGS or whole of government are received in the form of involuntary transfers, such as rates, taxes and fines, and voluntary transfers, such as grants and donations. In the case of government departments, parliamentary appropriations, other than those that give rise to a liability or that are in the nature of a contribution by owners, may also be a type of contribution.
- 20 This Standard requires contributions, other than contributions by owners, to be recognised as income when the transferee local government, government department, GGS or whole of government obtains control over them, irrespective of whether restrictions or conditions are imposed on the use of the contributions. The transferee

does not have a present obligation to sacrifice future economic benefits to the transferor, even though the transferee has a fiduciary responsibility to use the assets effectively and efficiently in pursuing its objectives. This fiduciary responsibility pertains to all assets and does not, of itself, create a present obligation to make sacrifices of future economic benefits to external parties. Accordingly, the receipt of contributions does not give rise to a liability.

- 21 For transfers to a local government, government department, GGS or whole of government to create a present obligation on that entity to make future sacrifices of economic benefits to external parties, the transfers must be reciprocal. Where assets are provided on the condition that the local government, government department, GGS or whole of government is to make a reciprocal transfer of economic benefits, and that transfer has not occurred prior to the reporting date, a liability is recognised as at the reporting date in respect of such amounts.
- 22 Reciprocal transfers are transfers in which the transferor and transferee directly receive and sacrifice approximately equal value. Examples of reciprocal transfers are sales of goods and services, the provision of loan funds, and the provision of employee services. A reciprocal transfer also occurs where, for example, assets are provided to a government department on the condition that the government department renders particular services to the transferor of the assets and, if the services are not rendered, those assets are required to be remitted directly to the transferor. Another example of a reciprocal transfer is where a user charge is provided to a local government in advance for repairs to a private road, where the charge would be repayable directly to the provider or providers if the works were not performed.
- 23 For a transaction to be reciprocal, the transferor must have a right to receive the benefits directly. It is not sufficient that the transferor receives benefits indirectly as a result of the transfer. For example, when a government provides a grant to a local government, it does not receive value directly in exchange, although it (or those it represents) would indirectly receive a benefit as a result of the local government deploying the grant in providing goods or services to beneficiaries that the grantor government represents.
- 24 While involuntary transfers to local governments, government departments, GGSs and whole of governments may result in the provision of some goods or services to the transferor, they do not give the transferor a claim to receive directly benefits of approximately equal value. The receipt and sacrifice of approximately equal value may occur, but only by coincidence. For example, governments are

not obliged to provide commensurate benefits, in the form of goods or services, to particular taxpayers in return for their taxes. For this reason, involuntary transfers are non-reciprocal transfers.

- 25 There could be instances where a transfer of economic benefits comprises a reciprocal component and a non-reciprocal component. For example, where another entity transfers a building to a local government, government department, GGS or whole of government at a price that intentionally is significantly lower than its fair value, the transfer is in part reciprocal (to the extent that approximately equal value is received directly in exchange) and in part non-reciprocal. In this circumstance, because a reciprocal transaction is involved, any unsatisfied obligation to provide consideration in return for the building is a liability of the local government, government department, GGS or whole of government.
- 26 If a local government, government department, GGS or whole of government failed to meet the specific conditions attaching to a contribution of assets and part or all of the contribution is required to be repaid, a liability and an expense would need to be recognised for the amount payable. In this circumstance, the transferee has a present obligation to the transferor that has arisen as a result of a past event: the failure of the transferee to meet the conditions for retention of the contribution.

Control over Assets

- 27 Control of amounts in the nature of voluntary transfers arises when the transferee can benefit from funds transferred to it and deny or regulate the access of others to those benefits. Therefore, control arises when, for example, government departments can use funds granted or transferred to purchase goods and services or retain those funds for future purchases.
- 28 The timing of gaining control over assets acquired from voluntary non-reciprocal transfers, such as grants and donations, depends upon the arrangements between the transferor and the transferee. For example, where a State Government receives a single-year grant from the Commonwealth Government to provide services in the following reporting period, the State Government obtains control over the grant when the grant eligibility criteria have been satisfied or the services or facilities under the grant agreement (if any) have been provided, which may coincide with the date of its receipt. This is because when the State Government satisfies grant eligibility criteria or provides services or facilities under any grant agreement, it has the capacity to benefit from the grant and can deny or regulate the access of others to it.

Correspondingly, in this circumstance, the Commonwealth Government would recognise an expense at the same time.

- 29 In the case of multi-year grant agreements from a government to another level of government or a government department, the transferee government or government department does not control the contributed assets, and therefore should not recognise revenues, until the transferor government has a present obligation that is binding. For example, the transferee government or government department does not gain control of assets under a multi-year public policy grant agreement until it has met conditions such as grant eligibility criteria or provided the services or facilities that make it eligible to receive a contribution. On this basis, under multi-year public policy agreements, income would be recognised only in relation to grants received or receivable under any grant agreement.
- 30 Control over assets acquired from involuntary non-reciprocal transfers, such as rates, taxes and fines, is obtained when the underlying transaction or other event giving rise to control of the future economic benefits occurs. For example, taxes are recognised when the underlying transaction or event that gives rise to the GGS's or whole of government's right to collect the tax occurs and can be measured reliably. In some cases an inability to reliably measure taxes when the underlying transactions or events occur means that they may need to be recognised at a later time. In most cases, taxes will be recognised in the reporting period in which the tax assessments are due to be issued or during which the tax collections are received. For this reason, the disclosure of policies adopted for recognising taxes will enhance the understandability and comparability of information relating to them. Where the transfers arise from a periodical charge, such as a land tax, a government obtains control over the assets on the day on which the government becomes entitled to levy the land tax. Control over assets acquired from local government rates would be obtained at the commencement of the rating period or, where earlier, upon receipt.

Taxes Collected by Government Departments and Parliamentary Appropriations to Government Departments

Paragraphs 31 to 38 of this Standard apply only to government departments.

Taxes Collected by Government Departments

- 31 It is unlikely that taxes, for example, income tax, will qualify as income of the agency responsible for their collection. This is because the agency responsible for collecting taxes does not normally control the future economic benefits embodied in tax collections (see AASB 1050). Taxes are recognised when the definition of, and recognition criteria for, income is met. Accordingly, taxes which are controlled by the tax collection agency and which satisfy the recognition criteria for income specified in paragraph 12 of this Standard qualify for recognition as income in the reporting period during which control is obtained. This means that taxes are treated in the same manner as described in paragraph 30.

Parliamentary Appropriations to Government Departments

- 32 **Parliamentary appropriations over which a government department gains control during the reporting period shall be recognised as:**
- (a) **income of that reporting period where the appropriation:**
 - (i) **satisfies the definition of income in the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*); and**
 - (ii) **satisfies the recognition criteria for income;**
 - (b) **a direct adjustment to equity where the appropriation satisfies the definition of a contribution by owners; or**
 - (c) **a liability of the government department where the appropriation:**
 - (i) **satisfies the definition of liabilities in the *Framework*; and**

(ii) **satisfies the recognition criteria for liabilities in the Framework.**

- 33 Parliamentary appropriations may be designated as recurrent appropriations, capital or works and services appropriations or other appropriations. Irrespective of the designation given to a parliamentary appropriation, its recognition as income, a contribution by owners or a liability requires an evaluation of the characteristics of the parliamentary appropriation by reference to the definitions of income, contributions by owners and liabilities. This ensures that the substance, rather than the form, of the parliamentary appropriation is reported.

Parliamentary Appropriations as Income

- 34 The parliamentary appropriation process currently adopted in some jurisdictions in Australia is such that government departments do not gain control of funds appropriated for their use until obligations are incurred or expenditures are made by the government department. In these jurisdictions, appropriations recognised as income are in the nature of a recovery of costs incurred for the acquisition of goods and services or for amounts otherwise expended. As such, a government department usually only controls amounts appropriated by parliament for its use during the reporting period where those amounts have been expended or are required to meet obligations incurred during that reporting period.
- 35 However, the nature of parliamentary appropriations, and the circumstances that give rise to a government department's control of such appropriations, can vary across different jurisdictions in Australia, and may vary for different types of appropriations within a particular jurisdiction. In addition, a government department's authority and ability to maintain separate bank accounts and to retain funds that have been appropriated for its use but that have not been expended during a reporting period can change over time. Similarly, the nature and content of appropriation legislation, the manner in which government departments' activities are funded, and the mechanisms by which parliament and the government ensure that the government departments' use of public funds is appropriate and consistent with government priorities as sanctioned by parliament, can change over time. These changes can affect a government department's ability to control amounts appropriated for its use. Accordingly, the extent to which amounts appropriated for a government department's use are recognised as income of a particular reporting period is determined by reference to the characteristics of the appropriation process and the circumstances in which the government department obtains control of appropriated amounts.

- 36 Where the nature of parliamentary appropriations is such that a government department's control over appropriations is not dependent on expenditure or the incurrence of obligations or the completion of agreed outputs, services or facilities, the government department's control of the appropriated amounts occurs at the earliest of:
- (a) the commencement of the period to which the appropriation applies;
 - (b) the receipt of the appropriated funds; and
 - (c) the date on which the government department's authority to expend appropriated funds becomes effective.
- 37 Where a government department controls amounts appropriated to it for transfer to other parties, those amounts give rise to assets and income when the government department gains control of those appropriations. Where a government department controls the appropriations and the conditions for transfer to beneficiaries are satisfied during the reporting period but the amounts have not been transferred as at the reporting date, the government department recognises a liability in respect of such amounts. Where amounts are to be transferred in future reporting periods and the conditions for transfer are also to be satisfied in future reporting periods, the government department does not recognise a liability as at the reporting date in respect of such amounts.
- 38 Parliamentary appropriations made to enable a tax collection agency to perform its services are income of that agency. This is because the agency has the authority to deploy the appropriated funds for the achievement of its objectives and, consequently, controls the assets arising from the appropriation.

Liabilities of Government Departments Assumed by Other Entities

Paragraphs 39 to 43 of this Standard apply only to government departments.

- 39 A liability of a government department that is assumed by the government or other entity shall be accounted for as follows:**
- (a) on initial incurrence of the liability by the government department, the government department shall recognise a liability and an expense;**

- (b) on assumption of the liability by the government or other entity, the government department shall extinguish the liability and:**
 - (i) when the assumption is not in the nature of a contribution by owners, the government department shall recognise income of an amount equivalent to the liability assumed; or**
 - (ii) when the assumption of the liability is in the nature of a contribution by owners, the government department shall make a direct adjustment to equity of an amount equivalent to the liability assumed.**

- 40 The obligation to make payments to employees in respect of long-service leave and other employee benefits may rest with the government, a central agency or other entity. However, the costs of long-service leave and other employee benefits are part of the cost of the goods and services provided by the government department for which those employees work. Employment contracts or employment arrangements may be such that a government or other entity, rather than the government department, directly incurs the obligation to settle liabilities that arise in respect of benefits of the government department's employees. Alternatively, it may be that the government department initially incurs the obligation to settle such liabilities, and the government or other entity then assumes that obligation.
- 41 A government or other entity may initially incur, and then settle, obligations in respect of the wages, salaries and other costs of the employees of a government department during the reporting period. Similarly, other expenses of operating the government department during the reporting period, such as building occupancy expenses, may be incurred and settled by the government or other entity. In such cases, the government department does not recognise a liability when the expenses are initially incurred. Rather, the government department recognises income equivalent to the fair value of the employee services or other assets it receives, and recognises expenses of the same amount to reflect that the economic benefits represented by those employee services or other benefits have been consumed by the government department. For employee services, this normally occurs when the services are provided, but in some instances the costs of these services forms part of the cost of acquiring an asset.
- 42 When an employee transfers from one government department to another government department, the liability in respect of employee benefits accrued up to the transfer date is usually transferred to the transferee government department. In such cases, the transferor

government department may make a payment to the transferee government department for the employee's accrued benefits. When an employee transfers from one government department to another government department:

- (a) the transferor government department extinguishes any liability for employee benefits recognised in respect of the employee, and recognises income equivalent to the liability extinguished. When a payment is made or is to be made by the transferor government department in consideration for the assumption of the liability by the transferee government department, the transferor government department extinguishes the liability and recognises a decrease in assets (cash) or an increase in liabilities (cash payable). When the payment is less than the total amount of the liability, the transferor government department recognises income equal to the amount of that shortfall; and
- (b) the transferee government department recognises an expense and a liability in respect of any present obligations to pay accrued employee benefits in the future that are assumed as a consequence of the transfer. When a payment is made or is to be made to the transferee government department in consideration for the assumption of the liability, the transferee government department recognises the liability assumed and an increase in assets (cash or cash receivable). When the payment is less than the total amount of the liability for employee entitlements assumed, the transferee government department recognises an expense equal to the amount of that shortfall.

- 43 As noted in paragraphs 39 to 41, a government may initially incur or subsequently assume all obligations to make payments to employees of a government department in respect of long-service leave and other employee benefits. In such cases, the transfer of employees between government departments will not give rise to the need for the transferee government department to recognise expenses and liabilities or for the transferor government department to extinguish liabilities and recognise income as outlined in paragraph 42.

Contributions of Services

Paragraphs 44 to 47 of this Standard apply only to local governments, government departments, GGSs and whole of governments.

- 44 **Contributions of services to local governments, government departments, GGSs and whole of governments shall be recognised as income when and only when:**

- (a) **the fair value of those services can be reliably determined; and**
- (b) **the services would have been purchased if they had not been donated.**

- 45 Local governments, government departments, GGSs and whole of governments may receive contributions of goods or services free of charge or for nominal consideration by way of gift or donation. The assets and income recognised by the recipient in respect of such contributions, subject to the requirements of paragraph 12 of this Standard, are measured at the fair value of the goods or services received. This ensures that the operating statement reports the change in resources controlled by the recipient as a result of the operations for the reporting period, and that the statement of financial position reports the assets and liabilities of the recipient as at the reporting date.
- 46 Some donated services, while useful, may not be central to the delivery of the outputs of the local government, government department, GGS or whole of government. In these cases, it is unlikely that the recipient would purchase the services if they were not donated. Recognition of the fair value of those services as income and expenses is not relevant to assessments of the cost of services provided by, or the financial performance of, the recipient. Accordingly, this Standard requires that contributed services only be recognised when the services would be purchased if not donated and when their fair value can be measured reliably.
- 47 In some cases, the gaining of control over the assets that result from contributions and the consumption of the future economic benefits embodied in those assets will be simultaneous. For example, donated services give rise to income and an asset of the recipient and, simultaneously, an expense as the future economic benefits embodied in the asset are consumed. Therefore, the net effect of the contribution of services is the recognition of income and an expense. Such recognition is important if the operating statement is to reflect fully the cost of services provided during the reporting period and the sources and amounts of the entity's income. Such information is useful in assessing the cost efficiency of an entity's performance and the amounts and sources of likely future resource requirements.

Contributions by Owners and Distributions to Owners of Local Governments, Government Departments and Whole of Governments

Paragraphs 48 to 53 of this Standard apply only to local governments, government departments and whole of governments.

- 48 Contributions by owners shall be recognised as a direct adjustment to equity when the contributed assets qualify for recognition.**
- 49 Distributions to owners shall be recognised as a direct adjustment to equity when the associated reduction in assets, rendering of services or increase in liabilities qualifies for recognition.**
- 50 It is important to distinguish contributions by owners from other contributions. It may be argued that contributions that are provided on the condition that they be expended on assets that increase the capacity of the entity to provide particular services should be classified as contributions of equity. However, such contributions would be contributions by owners, as defined in Appendix A to this Standard, only when the contributor establishes by way of the contribution a financial interest in the net assets of the entity that:
- (a) conveys entitlement both to a financial return on the contribution 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.
- 51 Contributions by owners are examples of non-reciprocal transfers. Examples of contributions by owners (and distributions to owners) are non-reciprocal transfers between a government department and the controlling government acting in its capacity as owner. Transactions with owners in their capacity as owners are not common in a local government context. A local government may on occasions receive contributions by owners, as defined in Appendix A to this Standard, such as investments in the capital of companies controlled by the governing body of the local government. Such contributions would need to be recognised as contributions of equity.
- 52 Contributions by owners can occur upon establishment of the entity or at a subsequent stage of the entity's existence. Contributions by owners can be in the form of cash, nonmonetary assets such as property, plant and equipment, or the provision of services. In some instances, the contribution may result from the conversion of the entity's liabilities into equity.

- 53 Reductions in equity as a result of distributions to owners (either dividends or returns of capital) can be in the form of a transfer of assets, a rendering of services or an increase in liabilities. Distributions from government departments to governments are made at the discretion of the government.

Restructure of Administrative Arrangements

Paragraphs 54 to 59 of this Standard apply only to government controlled not-for-profit entities and for-profit government departments.

- 54 In relation to a *restructure of administrative arrangements*, a government controlled not-for-profit transferor entity or a for-profit government department transferor entity shall recognise distributions to owners and a government controlled not-for-profit transferee entity or a for-profit government department transferee entity shall recognise contributions by owners in respect of assets transferred.
- 55 In relation to a restructure of administrative arrangements, a government controlled not-for-profit transferor entity or a for-profit government department transferor entity shall recognise contributions by owners and a government controlled not-for-profit transferee entity or a for-profit government department transferee entity shall recognise distributions to owners in respect of liabilities transferred.
- 56 When both assets and liabilities are transferred as a consequence of a restructure of administrative arrangements, a government controlled not-for-profit transferor entity or a for-profit government department transferor entity and a government controlled not-for-profit transferee entity or a for-profit government department transferee entity shall recognise a net contribution by owners or distribution to owners, as applicable.
- 57 When activities are transferred as a consequence of a restructure of administrative arrangements, a government controlled not-for-profit transferee entity or a for-profit government department transferee entity shall disclose the expenses and income attributable to the transferred activities for the reporting period, showing separately those expenses and items of income recognised by the transferor during the reporting period. If disclosure of this information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.

- 58** For each material transfer, the assets and liabilities transferred as a consequence of a restructure of administrative arrangements during the reporting period shall be disclosed by class, and the counterparty transferor/transferee entity shall be identified. With respect to transfers that are individually immaterial, the assets and liabilities transferred shall be disclosed on an aggregate basis.
- 59 The disclosures required by paragraph 58 will assist users to identify the assets and liabilities recognised or derecognised as a result of a restructure of administrative arrangements separately from other assets and liabilities and to identify the transferor/transferee entity.

Disclosure of Contributions

Paragraphs 60 to 62 of this Standard apply only to local governments, government departments, GGSs and whole of governments.

- 60** The complete set of financial statements shall disclose, separately by way of note, the amounts and nature of:
- (a) contributions recognised as income during the reporting period in respect of which expenditure in a manner specified by a transferor contributor had yet to be made as at the reporting date, details of those contributions and the conditions attaching to them;
 - (b) contributions recognised as income during the reporting period that were provided specifically for the provision of goods or services over a future period;
 - (c) contributions recognised as income during the reporting period that were obtained in respect of a future rating or taxing period identified by the local government, GGS or whole of government for the purpose of establishing a rate or tax;
 - (d) the nature of the amounts referred to in (a), (b) and (c) above and, in respect of (b) and (c) above, the periods to which they relate; and
 - (e) contributions recognised as income in a previous reporting period that were obtained in respect of the current reporting period.
- 61 Where a local government, government department, GGS or whole of government receives contributions on the condition that the related

assets shall be expended in a particular manner or used over a particular period, and those conditions are undischarged in part or in full as at the reporting date, the entity will have a strong fiduciary responsibility in relation to the deployment of those contributed assets. As noted in paragraph 20, this fiduciary responsibility does not constitute a liability. However, information about the contributions, including the conditions, is relevant to users of the complete set of financial statements, particularly in assessing performance and the discharge of accountability obligations. Accordingly, this Standard requires disclosure of those conditions where they are yet to be discharged, in part or in full, as at the reporting date. In addition, disclosure of contributions recognised as income in a previous reporting period that were provided specifically in respect of the current reporting period will provide information relevant to users' assessments of the entity's recovery of the cost of goods and services it has provided during the current reporting period.

- 62 The complete set of financial statements shall disclose separately the fair value of goods and services received free of charge, or for nominal consideration, that are recognised during the reporting period.**

Additional Government Department Disclosures

Paragraph 63 of this Standard applies only to government departments.

- 63 The complete set of financial statements of a government department shall disclose separately:**
- (a) appropriations, by class; and**
 - (b) liabilities that were assumed during the reporting period by the government or other entity.**

Compliance with Parliamentary Appropriations and Other Externally-Imposed Requirements

Paragraphs 64 to 68 of this Standard apply only to government departments.

- 64 The complete set of financial statements of a government department shall disclose separately:**
- (a) a summary of the recurrent, capital or other major categories of appropriations, disclosing separately:**

- (i) **the original amounts appropriated for the reporting period; and**
- (ii) **the total amounts appropriated for the reporting period;**
- (b) **amounts authorised other than by way of appropriation and advanced separately by the Treasurer, other minister or other legislative authority for the reporting period;**
- (c) **the expenditures for the reporting period in respect of each of the items disclosed in (a) and (b) above;**
- (d) **the reasons for any material variances between the amounts appropriated or otherwise authorised and the associated expenditures for the reporting period; and**
- (e) **the nature and probable financial effect of any non-compliance by the government department with externally-imposed requirements for the reporting period, not already disclosed by virtue of (d) above, and that are relevant to assessments of the government department's performance, financial position or financing and investing activities.**

65 The information disclosed about compliance with externally-imposed requirements shall be in a form that is relevant to users of that information, and that reflects the following:

- (a) the operating characteristics of the government department;
- (b) the structure of the appropriations;
- (c) any other requirements that are imposed externally on the government department; and
- (d) the general purpose nature of the complete set of financial statements.

66 For the purposes of economic decision making, including assessments of accountability, this Standard requires that users of the complete set of financial statements be provided with information about the amounts appropriated or otherwise authorised for a government department's use, and whether the government department's expenditures were as authorised. When spending limits imposed by parliamentary appropriation or other authorisation have not been complied with, information regarding the amount of, and reasons for, the

non-compliance is relevant for assessing the performance of management, the likely consequences of non-compliance, and the ability of the government department to continue to provide services at a similar or different level in the future.

- 67 Broad summaries of the major categories of appropriations and associated expenditures, rather than detailed reporting of appropriations line-item by line-item for each activity, is sufficient for most users of a government department's complete set of financial statements. Determining the level of detail and the structure of the summarised information is a matter of judgement. The detailed information about compliance with spending mandates required by certain users should be provided in special purpose financial statements.
- 68 In addition to requirements to comply with expenditure limits imposed by parliamentary appropriations, government departments are subject to a range of legislative, regulatory and other externally-imposed requirements governing their operations. Knowledge of non-compliance with such requirements is relevant for accountability purposes and may affect users' assessments of the government department's performance and likely future operations. It may also influence decisions about resources to be allocated to that government department in the future.

APPENDIX A

DEFINED TERMS

This Appendix is an integral part of AASB 1004.

Contributions	Non-reciprocal transfers to the entity.
Contributions by owners	<p>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:</p> <ul style="list-style-type: none">(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.
Non-reciprocal transfer	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.
Restructure of administrative arrangements	<p>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.</p> <p>The scope of the requirements relating to restructures of administrative arrangements is limited to the transfer of a business (as defined in AASB 3 <i>Business Combinations</i>). The requirements do not apply to, for example, a transfer of an individual asset or a group of assets that is not a business.</p>

APPENDIX B

COMPARISON OF AASB 1004 WITH AAS 27, AAS 29 AND AAS 31

This Appendix accompanies, but is not part of, AASB 1004.

Paragraphs 19 to 68 of this Standard broadly reproduce the requirements relating to contributions contained in AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*, with some exceptions. The more significant exceptions include:

- (a) requirements in this Standard relating to recognition of contributions other than contributions by owners (paragraphs 19 to 30), contributions of services (paragraphs 44 to 47) and disclosure of contributions (paragraphs 60 to 62) have been extended to apply to General Government Sectors (GGSs);
- (b) requirements in this Standard relating to recognition of non-reciprocal transfers (paragraph 30), including material from AAS 31 (paragraph 15.2.1) have been extended beyond whole of governments to local governments, government departments and GGSs;
- (c) requirements in this Standard relating to recognition and disclosure of contributions of services (paragraphs 44 to 47, and 62) have been extended beyond government departments to local governments, government departments, GGSs and whole of governments;
- (d) requirements in this Standard relating to the disclosure of contributions (paragraph 60) are more detailed than those that applied to government departments under AAS 29 and governments under AAS 31;
- (e) guidance in this Standard relating to contributions by owners and distributions to owners of local governments, government departments and whole of governments (paragraphs 48 to 53) has been amended to make it consistent with Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*; and
- (f) requirements in this Standard relating to restructures of administrative arrangements (paragraphs 54 to 59) require that transfers of resources resulting from such restructures are to be treated as movements in owner's equity by government controlled

not-for-profit entities and for-profit government departments that are transferees or transferors. This contrasts with the treatment under superseded AAS 29 and Interpretation 1038 that would have required treatment of the resource transfers as revenues or expenses in some circumstances. This Standard also includes a definition of ‘restructure of administrative arrangements’ (Appendix A).

The following table provides source references to paragraphs 19 – 68 of this Standard, most of which were derived from AASs 27, 29 and 31. It is provided to facilitate an understanding of, and assist in the application of, the requirements in this Standard.

Paragraphs in AASB 1004	Relevant source paragraphs in AASs 27, 29 and 31
19, 20, first sentence 21	60, 64-65 of AAS 27, 10.12.1 – 10.12.3 of AAS 29 and 14.1.1 – 14.1.3 of AAS 31
Second sentence of 21	67 of AAS 27 and 10.12.4 of AAS 29
22 – 23	61 of AAS 27, 10.12.2 and 10.12.4 of AAS 29 and 14.1.8 and 14.1.9 of AAS 31
24	62 of AAS 27 and 14.1.10 of AAS 31
25	14.1.11 of AAS 31
26	69 of AAS 27, 10.12.7 of AAS 29 and 14.1.4 of AAS 31
27	10.5.5 of AAS 29
28 – 29	10.12.5 of AAS 29 and 14.1.6 and 14.1.7 of AAS 31
30	68 of AAS 27, 10.5.10 of AAS 29 and 14.1.5 and 15.2.1 of AAS 31
31	10.5.9 of AAS 29
32	10.5 of AAS 29
33	10.5.1 of AAS 29
34 – 36	10.5.6 and 10.5.7 of AAS 29
37	10.5.17 of AAS 29
38	10.5.10 of AAS 29
39 – 43	8.2, 8.2.1 and 8.2.3 – 8.2.5 of AAS 29
44	10.12 of AAS 29
45	10.12.6 of AAS 29
46	10.12.9 of AAS 29
47	10.12.8 of AAS 29
48 – 53	63 and 70 of AAS 27, 11.1 – 11.2.4 of AAS 29 and 14.1.12 and 14.1.13 of AAS 31
54 – 59	7.4, 7.4.2 and 10.6 – 10.9.3 of AAS 29
60 – 61	92 and 93 of AAS 27 and 12.4 and 12.4.1 of

Paragraphs in AASB 1004	Relevant source paragraphs in AASs 27, 29 and 31
	AAS 29
62	12.2(d) of AAS 29
63	12.2(b) and (c) of AAS 29
64	12.6 of AAS 29
65	12.6.3 of AAS 29
66	12.6.2 of AAS 29
67	12.6.3 of AAS 29
68	12.6.4 of AAS 29

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, AASB 1004.

Introduction

BC1 This Basis for Conclusions summarises the Board's considerations in revising AASB 1004 *Contributions* in the context of the Board's short-term review of the requirements in AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*.

Background

- BC2 The Board considered it timely to review the requirements in AASs 27, 29 and 31, in particular to:
- (a) review the extent to which local governments, government departments and governments should continue to be subject to requirements that differ from requirements applicable to other not-for-profit entities and for-profit entities contained in Australian Accounting Standards. The Board concluded that differences should be removed, where appropriate and timely, to improve the overall quality of financial reporting;
 - (b) bring requirements applicable to local governments, government departments and governments up-to-date with contemporary accounting thought;
 - (c) consider the implications of the outcomes of its project on the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS), in particular, on the requirements in AAS 31;
 - (d) decide whether the encouragements in AASs 27, 29 and 31 should be made mandatory or removed; and
 - (e) remove uncertainty in the application of cross-references to other Australian Accounting Standards and the override provisions in AASs 27, 29 and 31 that made the requirements in AASs 27, 29 and 31 take precedence over other requirements.
- BC3 The Board considered the following alternative mechanisms for implementing the approach of updating and improving the

requirements for local governments, government departments and governments:

- (a) review the requirements in AASs 27, 29 and 31 and, where appropriate:
 - (i) amend other Australian Accounting Standards to pick up any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards and have them apply to local governments, government departments and governments; or
 - (ii) create public sector specific topic-based Standards; and consequently withdraw AASs 27, 29 and 31; or
- (b) review AASs 27, 29 and 31 and re-issue them in light of the latest Australian Accounting Standards, retaining/amending where necessary any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards.

BC4 The Board chose alternative (a) given the improvements in the quality of financial reporting by local governments, government departments and governments since AASs 27, 29 and 31 were first issued.

BC5 Where the Board identified that the material in AASs 27, 29 and 31 could be improved within time and resource constraints, improvements have been made. Much of the material in AASs 27, 29 and 31 has been retained substantively unamended. Improvements will be progressed in due course in line with the AASB's Public Sector Policy Paper *Australian Accounting Standards and Public Sector Entities*.

BC6 The first stage of the short-term review of the requirements in AASs 27, 29 and 31 was the preparation of a paragraph-by-paragraph analysis of each of AASs 27, 29 and 31, listing each paragraph of each Standard alongside corresponding Standards or other pronouncements that would apply to local governments, government departments or governments in the absence of AASs 27, 29 and 31. The Board's conclusions and rationale for the treatment of each paragraph in the context of the review were also provided in the analysis. The Board's primary focus was on dealing with the requirements from the three Standards in such a way as to not leave a vacuum.

- BC7 Each paragraph from AASs 27, 29 and 31 was classified as being:
- (a) no longer needed or adequately dealt with in other Standards;
 - (b) more appropriately dealt with in other Standards; or
 - (c) not adequately and/or appropriately dealt with in other Standards and therefore should be retained or improved and incorporated into other Standards.

The paragraph-by-paragraph analyses considered by the AASB in developing the Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31* that gave rise to this Standard are available on the AASB website. They support, but do not form part of, this Basis for Conclusions.

- BC8 In reviewing the paragraphs, the Board noted that some material in AASs 27, 29 and 31 would, under the current style of writing Standards, be located in a separate Basis for Conclusions. Given the short-term nature of the review of AASs 27, 29 and 31, the Board concluded that explanations of technical issues that both originated in and are being relocated from AASs 27, 29 and 31 should, when appropriate, be located in the body of the Standard to which they are relocated.
- BC9 The Board decided not to retain the illustrative general purpose financial reports provided in AASs 27, 29 and 31, because their purpose, which was to provide an educational tool in the initial stages of accrual reporting by local governments, government departments and governments is no longer needed.
- BC10 The remainder of this Basis for Conclusions focuses on issues specific to contributions.

Contributions

General Approach

- BC11 The Board decided to broadly retain the material on contributions from AASs 27, 29 and 31 and locate it in separate sections within AASB 1004 because it was not adequately covered in existing Australian Accounting Standards.
- BC12 The Board concluded that, in the short term, minimal changes should be made to the content of the material. The Board considered that it

is appropriate to review the requirements and guidance for contributions as part of a longer-term project as outlined in the AASB's Public Sector Policy Paper. A review by the Board of non-exchange income, which will incorporate a review of contributions, is in progress at the time of revision of this Standard.

BC13 The Board considered two options for relocating the requirements on contributions into AASB 1004:

- (a) merging the AASs 27, 29 and 31 paragraphs into the then existing AASB 1004 requirements; or
- (b) adding the AASs 27, 29 and 31 paragraphs into the existing AASB 1004 as separate sections.

The paragraphs in AASs 27, 29 and 31 containing guidance about contributions were very detailed and contained a large amount of commentary whereas the then existing guidance in AASB 1004 was significantly less detailed. The Board concluded that merging the requirements in AASs 27, 29 and 31 with the AASB 1004 requirements would, in effect, require the redrafting of the entire Standard, which is beyond the scope of this project. The integration approach was also considered more likely to raise controversial revenue recognition issues for all not-for-profit entities that, as noted in paragraph BC12, the Board will deal with as a separate longer-term project applicable to a broader range of entities.

BC14 The Board also considered whether the guidance from AASs 27, 29 and 31 should be merged into a single set of generic requirements or expressed separately for local governments, government departments or governments. The Board concluded that the three sets of guidance from AASs 27, 29 and 31 were sufficiently similar to be merged to form one set of requirements – noting that such an approach results in some changes for some entities. One area where this occurs is the disclosure of contributions, where government departments and governments are now required to make disclosures not previously required, because AAS 27 was more onerous than AASs 29 and 31.

BC15 The Board decided to include specific references to the application of this Standard to General Government Sectors (GGSs) to support/clarify the AASB 1049 *Financial Reporting of General Government Sectors by Governments* requirement for GGSs to adopt other Australian Accounting Standards, including this Standard. As this Standard has many parts, applicable to different groups of entities, the Board considered it would aid users to explicitly refer to GGSs in paragraph 1(d) and throughout this Standard.

- BC16 In addition, the Board decided to extend the application of the requirements relating to ‘contributions of services’ to apply beyond government departments to local governments, GGSs and whole of governments, for consistency across these types of entities.
- BC17 Because the guidance from AASs 27, 29 and 31 partly overlapped with the guidance in the superseded AASB 1004, the Board amended the requirements to reduce duplication.
- BC18 The Board considered whether the paragraphs of AAS 29 that address the accounting for parliamentary appropriations, which are only applicable to government departments, should be incorporated into this Standard as a separate section. The Board noted the view that the requirements are no longer needed given the nature of current arrangements between governments and government departments for parliamentary appropriations compared with past arrangements and government departments’ familiarity with accrual accounting. However, the Board concluded that the paragraphs should be retained, in keeping with Board’s short-term intention of retaining the guidance from AASs 27, 29 and 31 where there are no comparable requirements in existing Australian Accounting Standards and thereby avoid creating a vacuum.
- BC19 Paragraph 15.2.1 of AAS 31 dealt with the disclosure of policies adopted for recognising tax revenues. Given the nature of the commentary, the Board concluded that it would be most logical to locate the contents of this paragraph in paragraph 30 of this Standard within the area that relates to recognition of ‘contributions, other than contributions by owners, by local governments, government departments, GGSs or whole of governments’ and within the section ‘control over assets’ in a paragraph that discusses control over assets acquired from involuntary non-reciprocal transfers, such as rates, taxes and fines. In doing this, the Board decided to extend the requirements beyond whole of governments to local governments, government departments and GGSs.

Liabilities Assumed by Other Entities

- BC20 The Board decided to substantially retain the guidance in AAS 29 relating to the treatment of liabilities assumed by other entities in the financial statements of a government department. The Board concluded that, although the superseded AASB 1004 specified requirements for liabilities that are forgiven, it did not explicitly deal with liabilities that are assumed by other entities.
- BC21 The Board considered whether to align the requirements in paragraphs 8.2, 8.2.1 and 8.2.3-8.2.5 of AAS 29 for derecognition of

liabilities with the corresponding requirements in AASB 139 *Financial Instruments: Recognition and Measurement*. The Board noted that the AAS 29 requirements, which reflected a symmetrical accounting approach, may not be consistent with the criteria for derecognition of a liability in AASB 139, which does not necessarily result in symmetry and refers to liabilities arising from contracts. Given the relationship between an entity assuming a government department's liability (such as the controlling government) and the government department, the Board concluded that the symmetrical accounting adopted in AAS 29 is appropriate for derecognition of liabilities.

Government Department Disclosures Relating to Revenue

BC22 The Board decided that it would be most logical to incorporate the requirements from paragraphs 12.2(b)-(d) of AAS 29 relating to disclosure requirements for certain revenue items (that is, appropriations by class; liabilities that were assumed during the reporting period by the government or other entity; and the fair value of goods and services received free of charge, or for nominal consideration, and recognised during the reporting period) into this Standard. This is because they are disclosures of items of revenue that, for the purpose of the short-term review, are considered to be sufficiently related to the scope of the superseded AASB 1004.

BC23 The Board decided to limit the requirements in paragraphs 12.2(b) and (c) of AAS 29 to government departments, in keeping with its approach of retaining AASs 27, 29 and 31 requirements in the short term. In keeping with the Board's decision to extend the application of the section on 'contribution of services' to apply beyond government departments to local governments, GGSs and whole of governments (see paragraph BC16), the Board concluded that the disclosure requirements in paragraph 12.2(d) of AAS 29 relating to revenue disclosures about contributions of services should also be extended to apply to local governments, GGSs and whole of governments. Furthermore, the Board concluded that the paragraph in question should be amended to refer to recognised contributions of services to be consistent with the requirements under which not all contributions received would be required to be recognised.

Restructures of Administrative Arrangements

BC24 The Board considered it timely to amend the requirements in paragraphs 7.4, 7.4.2 and 10.6-10.9.3 of AAS 29 for restructures of administrative arrangements as part of the short-term review of AAS 29 and in light of the existing definition of contributions by

owners that is contained in this Standard. The Board decided to define restructures of administrative arrangements and to specify that they are in the nature of transactions with owners in their capacity as owners to be recognised on a net basis. In particular, the Board concluded that a transfer of net assets arising as a consequence of a restructure of administrative arrangements is faithfully represented as a distribution to owners by the transferor and a contribution by owners by the transferee. The Board also noted that this would result in greater consistency in accounting for restructures of administrative arrangements. The Board concluded that this approach is preferable to the superseded approach whereby transfers need to be designated as contributions by owners at the time of the transfer to be treated as such. The Board noted that this would result in a significant change in the current AAS 29 requirements as the possibility of treating a transfer as a revenue/expense item would no longer be available, and would give rise to amendments to Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* to make it consistent with this Standard. Consistent with the short-term nature of the review of AASs 27, 29 and 31, the Board intends making amendments to Interpretation 1038 to make it consistent with this Standard. In the longer term, the Board intends to undertake a fundamental review of Interpretation 1038.

- BC25 The Board concluded that the effect of the requirements should be expanded beyond government departments to include all government controlled not-for-profit public sector entities and for-profit government departments, noting that this would increase the consistency with the scope of Interpretation 1038 which applies to all wholly-owned public sector entities that prepare general purpose financial statements, not just government departments. This will assist in harmonising requirements and guidance in relation to contributions by owners. It is not intended that the amended requirements for restructures of administrative arrangements necessarily apply in analogous circumstances. For example, it is not intended that the amended requirements apply in the accounting for restructures of commonly-controlled private sector entities.
- BC26 Although assets and/or liabilities assumed by another entity as a consequence of a restructure of administrative arrangements were not explicitly dealt with in the superseded AASB 1004, the Board concluded that this Standard is an appropriate location for this material as it is the Standard that is best suited to dealing with contributions, including contributions by owners, to not-for-profit reporting entities and for-profit government departments.
- BC27 In addition, in accordance with its decision to issue AASB 2005-6 *Amendments to Australian Accounting Standards [AASB 3]*, the

Board concluded that AASB 3 *Business Combinations* is not an appropriate Standard in which to locate specific requirements relating to restructures of administrative arrangements because business combinations involving entities or businesses under common control are now excluded from the scope of AASB 3. However, a cross-reference from AASB 3 to AASB 1004 is provided to assist in understanding the relationship between the two Standards.

- BC28 The Board also concluded that it is not necessary at this time to explicitly address the measurement basis to be adopted for transferred assets and liabilities due to a restructure of administrative arrangements. An asset acquired by a government controlled not-for-profit entity or a for-profit government department as a consequence of a restructure of administrative arrangements is considered to be a contribution by owners. Not specifying the measurement basis is consistent with Interpretation 1038, which also does not specify the measurement basis to be adopted with respect to contributions by owners or distributions to owners. In addition, AASB 3 does not address the measurement issue for a restructure of entities under common control. The Board also noted that measurement requirements in AASB 116 *Property, Plant and Equipment* (including paragraph Aus15.1) do not apply to assets transferred under a restructure of administrative arrangements because they are acquired by the transferee as part of a business. The Board acknowledges that, as the proposed amendments do not specify the measurement basis to be adopted, assets and liabilities transferred in the course of a restructure of administrative arrangements could be measured at fair value or book value.
- BC29 The Board noted that the scope of the requirements relating to restructures of administrative arrangements is limited to the transfer of a business (as defined in AASB 3). The Board does not intend the requirements to apply where, for example, an individual asset or a group of assets that are not a business are transferred, noting that transfers of an individual asset and a group of assets are scoped out by the definition of a business in AASB 3.

Compliance with Parliamentary Appropriations and Other Externally-Imposed Requirements by Government Departments

- BC30 The Board noted that issues relating to compliance with parliamentary appropriations and other externally-imposed requirements are important for government accountability. Accordingly, the Board concluded that the requirements in paragraphs 12.6 and 12.6.2-12.6.4 of AAS 29 for disclosure of

compliance with parliamentary appropriations and other externally imposed requirements should be retained.

- BC31 The Board concluded that the requirements for the disclosure by government departments of compliance with parliamentary appropriations and other externally-imposed requirements are sufficiently related to the topic of contributions to be incorporated into this Standard.
- BC32 Consistent with the short-term nature of the project, the requirements are to be limited to government departments rather than applying them more broadly to not-for-profit public sector entities. In due course, the Board will consider extending the application of the requirements.
- BC33 The Board concluded that it is appropriate to not retain paragraph 12.6.1 of AAS 29, which explains the meaning of parliamentary appropriations, as it is no longer necessary.