Compiled AASB Standard **AASB 1004**

Contributions

This compiled Standard applies to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2019. It incorporates relevant amendments made up to and including 9 December 2016.

Prepared on 30 May 2019 by the staff of the Australian Accounting Standards Board.

Compilation no. 3

Compilation date: 31 December 2018

Australian Government

Australian Accounting Standards Board

Obtaining copies of Accounting Standards

Compiled versions of Standards, original Standards and amending Standards (see Compilation Details) are available on the AASB website: www.aasb.gov.au.

Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Phone: (03) 9617 7637
E-mail: standard@aasb.gov.au
Website: www.aasb.gov.au

Other enquiries

Phone: (03) 9617 7600
E-mail: standard@aasb.gov.au

Contents

Australian Accounting Standard AASB 1004 *Contributions* (as amended) is set out in paragraphs 6 – 59 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 of Standards*, which identifies the Australian Accounting Interpretations, and AASB 1057 *Application of Australian Accounting Standards*. 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.

Comparison with international pronouncements

AASB 1004 *Contributions* does not correspond directly with any specific IPSASB Standard or IFRS Standard.

AASB 1004 and IPSAS

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)* or IPSAS 40 *Public Sector Combinations*.

Both AASB 1004 and IPSAS 23 require subject transactions that meet the definition of contributions by owners to be recognised as equity transactions. The definitions of contributions by owners in the Standards are broadly consistent, however IPSAS 23 takes a more substance-over-form approach and does not address symmetry between a transferor and the transferee in relation to contributions by and distributions to owners.

Restructures of administrative arrangements (which require the transfer of a business) would typically meet the definition of an amalgamation under IPSAS 40. However, IPSAS 40 specifies measurement requirements, whereas AASB 1004 does not. AASB 1004 also treats the net transfer between the parties as a contribution by owners or distribution to owners, as applicable.

AASB 1004 and IFRS Standards

Not-for-profit entities that comply with the requirements of AASB 1004 may not simultaneously be in compliance with the requirements of IFRS Standards, which do not explicitly define contributions by owners. However, restructures of administrative arrangements are business combinations under common control, which are excluded from the scope of IFRS 3 *Business Combinations*.

Accounting Standard AASB 1004

The Australian Accounting Standards Board made Accounting Standard AASB 1004 *Contributions* under section 334 of the *Corporations Act 2001* on 13 December 2007.

This compiled version of AASB 1004 applies to annual reporting periods beginning on or after 1 January 2019. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 9 December 2016 (see Compilation Details).

Accounting Standard AASB 1004
Contributions

Application

1–
5 [Deleted]

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.
Government departments	Parliamentary appropriations	32
	Liabilities of government departments assumed by other entities	39 – 43A
	Contributions by owners and distributions to owners	48 – 53
	Restructure of administrative arrangements	54 – 59
Other government controlled not-for-profit entities	Restructure of administrative arrangements	54 – 59
Local governments and whole of governments	Contributions by owners and distributions to owners	48 – 53

7 **This Standard applies to annual reporting periods beginning on or after 1 July 2008.**

[Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

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 [Deleted]

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.**

11–31 [Deleted]

Parliamentary appropriations to government departments

Paragraph 32 of this Standard applies only to government departments.

32 **Parliamentary appropriations over which a government department gains control during the reporting period shall be recognised as a direct adjustment to equity where the appropriation satisfies the definition of a contribution by owners.**

33–38 [Deleted]

Liabilities of government departments assumed by other entities

Paragraphs 39 to 43A 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.

43A A government department shall disclose liabilities that were assumed during the reporting period by the government or other entity.

44–47 [Deleted]

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.

Authorised Version F2019C00455 registered 12/06/2019

Restructure of administrative arrangements

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

54 **In relation to a *restructure of administrative arrangements*, a government controlled not-for-profit transferor entity shall recognise distributions to owners and a government controlled not-for-profit 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 shall recognise contributions by owners and a government controlled not-for-profit 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 and a government controlled not-for-profit 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 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.

60–68 [Deleted]

Appendix A
Defined terms

This Appendix is an integral part of AASB 1004.

Contributions	Non-reciprocal transfers to the entity.
Contributions by owners	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: (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	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. The scope of the requirements relating to restructures of administrative arrangements is limited to the transfer of a business (as defined in AASB 3 *Business Combinations*). The requirements do not apply to, for example, a transfer of an individual asset or a group of assets that is not a business.

Authorised Version F2019C00455 registered 12/06/2019

Compilation details
Accounting Standard AASB 1004 *Contributions* (as amended)

Compilation details are not part of AASB 1004.

This compiled Standard applies to annual reporting periods beginning on or after 1 January 2019. It takes into account amendments up to and including 9 December 2016 and was prepared on 30 May 2019 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 1004 (December 2007) as amended by other Accounting Standards, which are listed in the Table below.

Table of Standards

Standard	Date made	FRL identifier	Commence-ment date	Effective date *(annual periods … on or after …)*	Application, saving or transitional provisions
AASB 1004	13 Dec 2007	F2008L00230	26 Jan 2008	*(beginning)* 1 Jul 2008	see (a) below
AASB 2011-8	2 Sep 2011	F2011L02038	8 Oct 2011	*(beginning)* 1 Jan 2013	see (b) below
AASB 2015-3	28 Jan 2015	F2015L00134	28 Jan 2015	*(beginning)* 1 Jul 2015	see (c) below
AASB 1058	9 Dec 2016	F2017L00042	31 Dec 2018	*(beginning)* 1 Jan 2019	see (d) below

(a) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2008, provided that a number of updated, public-sector-related Standards are also applied to such periods, as set out in the Standard.

(b) AASB 2011-8 has been amended by AASB 2011-10 (made 5 September 2011) and AASB 2012-6 (made 10 September 2012).

Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2013, provided that AASB 13 *Fair Value Measurement* is also applied to such periods.

(c) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2014 but before 1 July 2015.

(d) Entities may elect to apply this Standard to annual periods beginning before 1 January 2019, provided that AASB 15 *Revenue from Contracts with Customers* is also applied to the same period.

Table of amendments

Paragraph affected	How affected	By … [paragraph/page]
1-5	deleted	AASB 1058 [page 25]
6	amended	AASB 1058 [page 25]
9	deleted	AASB 2015-3 [13, 14]
11	amended	AASB 2011-8 [101]
11-31	deleted	AASB 1058 [page 25]
32 (preamble)	added	AASB 1058 [page 25]
32	amended	AASB 1058 [page 25]
33-38	deleted	AASB 1058 [page 25]
39 (preamble)	amended	AASB 1058 [page 26]
43A	added	AASB 1058 [page 26]
44	amended	AASB 2011-8 [102]
44-47	deleted	AASB 1058 [page 25]
54-57 (and preamble)	amended	AASB 1058 [page 26]
60-68	deleted	AASB 1058 [page 25]
Appendix B	deleted	AASB 1058 [page 25]

Authorised Version F2019C00455 registered 12/06/2019

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.

Basis for Conclusions on AASB 1058

This Basis for Conclusions accompanies, but is not part of, AASB 1004. The Basis for Conclusions was originally published with AASB 1058 Income of Not-for-Profit Entities*.*

Background

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in AASB 1058. It sets out the reasons why the AASB developed the Standard, the approach taken to developing the Standard and the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

The need for change

BC2 Prior to the issue of this Standard and AASB 15 *Revenue from Contracts with Customers*, the recognition and measurement requirements for transactions giving rise to income depended on whether the transaction was reciprocal or non-reciprocal in nature. The accounting for income arising from reciprocal transactions was predominantly addressed in AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The accounting for income arising from non-reciprocal transactions was addressed in AASB 1004 *Contributions*.

BC3 The Board observed determining whether a transaction was reciprocal or non-reciprocal in practice was not always straightforward. Entities found it challenging to determine whether approximately equal value had been provided in exchange to the other party or parties to the transfer, and contended that in many instances the immediate recognition of income in a non-reciprocal transaction did not faithfully represent the underlying financial performance of the entity. Diverse interpretations existed, with some entities recognising transactions with return obligations and specified performance outcomes as reciprocal transactions and some not.

BC4 Constituents were particularly concerned about the income recognition requirements as applied to grants, appropriations and other transfers of assets made on the condition that the not-for-profit entity deliver goods or services to nominated third parties. The Board heard that constituents who are preparers find it difficult to discuss financial information with grantors and donors, and challenging to explain why a not-for-profit entity needed additional resources when the financial statements indicated no such need. Users noted they did not think the financial statements were reflective of the economic reality of a not-for-profit entity's financial circumstances. Having regard to the feedback from constituents, the Board decided to undertake a project to conduct a fundamental review of the income recognition requirements applying to not-for-profit entities.

BC5 The Board observed that the International Accounting Standards Board had completed developments in the accounting for revenue with the issue of IFRS 15 *Revenue from Contracts with Customers* in May 2014. The Board noted it still needed to determine what, if any, amendments and guidance would be required to enable not-for-profit entities to apply the equivalent Australian Accounting Standard, AASB 15. In addition, the Board noted that the application of the performance obligation approach to revenue recognition adopted in AASB 15, using a broader concept of customer, had the potential to resolve some of the issues noted with AASB 1004. Consequently, the Board considered that this was an appropriate time to undertake a project to review the income recognition requirements applying to not-for-profit entities.

BC6 As part of its current project, the Board noted there is currently divergence in practice in the accounting for leases with significantly below-market terms and conditions, such as 'peppercorn' leases where a nominal amount is made as payment to the lessor. Some entities consider AASB 117 *Leases* takes precedence over AASB 1004 and accordingly, currently recognise such leases at nominal values; others consider the reverse applies and recognise such leases at fair value, together with a related contribution. The Board decided its project should also clarify the accounting for such leases.

BC7 The Board also observed that various Australian Accounting Standards required a not-for-profit entity to recognise assets received at fair value (or current replacement cost, in relation to inventories) only where the asset had been acquired for no or nominal consideration (for example, AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*). The Board perceived there to be a gap in the accounting for those transactions where an asset has been acquired for consideration that is below market but is more than nominal. The Board noted that under existing recognition and measurement rules at that time, an entity would likely not have recognised any income on the transaction, but measured the asset acquired at the amount of the consideration transferred. The Board considered that, in many instances, such transactions were unlikely to be conceptually different to those for which no consideration was transferred, and consequently decided to also consider the accounting for such transactions as part of this project.

Previous stages of this project

BC8 In previous stages of this project, the Board had previously exposed proposals on income recognition requirements for similar transactions as part of the following Exposure Drafts:

(a) ED 125 *Financial Reporting by Local Governments* (October 2003). This ED also addressed other issues;

(b) ED 144 *Proposed Guidance to accompany AASB 1004* Contributions (November 2005);

(c) ED 147 *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)* (February 2006); and

(d) ED 180 *Income from Non-exchange Transactions (Including Taxes and Transfers)* (June 2009).

BC9 However, having regard to constituent feedback and developments in accounting internationally subsequent to the issue of each such Exposure Draft, the Board had decided not to finalise those previous Exposure Drafts. The last such Exposure Draft, ED 180, was closely based on IPSAS 23 *Income from Non-exchange Transactions (Taxes and Transfers)*. At that time, the Board decided, having regard to feedback received on the ED and the progress the IASB was making on a project to replace IAS 18 *Revenue*, not to finalise the proposals set out in ED 180, but instead to refocus its project following issue of IFRS 15 *Revenue from Contracts with Customers*.

Alternative approaches considered

BC10 In developing this Standard, the Board considered whether to base the income recognition and measurement principles for a not-for-profit entity on those set out in:

(a) AASB 1004 *Contributions*;

(b) IPSAS, including IPSAS 23;

(c) AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*; or

(d) AASB 15 *Revenue from Contracts with Customers*.

BC11 The Board decided not to develop proposals based on the accounting specified by AASB 1004 (as in force at that time), having regard to constituent feedback leading to the Board undertaking the project. In addition, the Board observed that the approach in AASB 1004 does not acknowledge that a non-reciprocal transfer may be made on terms and conditions representative of a liability as defined in the *Framework for the Preparation and Presentation of Financial Statements*.

…

Issue of ED 260

BC21 The Board's proposals with respect to the accounting for income of not-for-profit entities finalised in this Standard were exposed for public comment in April 2015 as part of ED 260 *Income of Not-for-Profit Entities*. In developing ED 260, the Board considered both the feedback received on ED 180 and the requirements of AASB 15. ED 260 proposed both revisions to the income recognition principles in AASB 1004, and development of guidance and illustrative examples to assist not-for-profit entities in implementing AASB 15.

…

BC24 The Board received feedback on its proposals through receipt of 34 formal comment letters on ED 260. The Board also obtained feedback via means such as email, meetings with constituents, presentations to various bodies and social media. About half the respondents to the Exposure Draft explicitly considered that overall, the proposals would result in financial statements that would be useful to users. Many respondents to ED 260 expressed support for no longer basing income recognition requirements on a reciprocal/non-reciprocal transfer distinction as previously specified by AASB 1004, but on requirements based on satisfying a performance obligation.

…

Finalisation of ED 260

BC28 Following the consultation period, and after considering constituent comments received, the Board decided to proceed with issuing revised principles for the recognition and measurement of income of not-for-profit entities largely as exposed. The Board considered the identified benefits of the revised requirements to exceed the costs of the revised requirements.

…

BC32 The Board considered that, overall, its decisions on this project have not significantly departed from those exposed in a manner that adversely affects entities applying the Standard. The Board decided to finalise its proposals exposed in ED 260 by:

(a) issuing AASB 1058 to address the accounting for income of not-for-profit entities. The Standard establishes principles for not-for-profit entities that apply to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable a not-for-profit entity to further its objectives, and to the receipt of volunteer services;

(b) issuing AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* to add implementation guidance and illustrative examples to AASB 15 to assist not-for-profit entities in applying the Standard. In addition, AASB 2016-8 adds implementation guidance to AASB 9 on the initial measurement and recognition of non-contractual receivables arising from statutory requirements;

(c) retaining AASB 1004 *Contributions*, amended to exclude transactions now addressed by AASB 1058; and

(d) issuing AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities* to defer the effective date of AASB 15 for application by not-for-profit entities.

…

Scope

…

Scope exclusions

…

BC49 The Board noted that the requirements of AASB 1058 could be interpreted to apply to restructures of administrative arrangements, which are addressed in AASB 1004 (see paragraph BC173 below). To avoid confusion as to which Standard applies to these transactions, the Board decided to exclude them from the scope of AASB 1058.

…

Recognition and measurement

…

Volunteer services

BC107 AASB 1004 (December 2007) required local governments, government departments, General Government Sectors (GGSs) and whole of government reporting entities to recognise services received free of charge or for nominal consideration, provided the fair value of those services could be measured reliably, and the services would have been purchased if they had not been donated. The Board decided to carry forward these aspects into AASB 1058 as it was concerned that a wide-ranging review of the recognition requirements for volunteer services could take significant time and potentially delay the completion of this project.

BC108 AASB 1004 does not specifically indicate the circumstances in which not-for-profit entities other than those specifically identified can recognise volunteer services. Consequently, not-for-profit entities may elect to recognise volunteer services based on an accounting policy developed in accordance with AASB 108. ED 260 proposed clarifying that not-for-profit entities may elect to recognise volunteer services if the fair value of those services can be measured reliably, without necessarily needing to have been purchased had the services not been donated. In forming the proposal, the Board observed the purchase pre-requisite in AASB 1004 was primarily focused on limiting the scope of volunteer services for which recognition by particular public sector not-for-profit entities is required. The Board considered not-for-profit entities should be able to elect to recognise volunteer services with a fair value that can be measured reliably even if those services would not have been purchased if they had not been donated.

BC109 The Board noted that carrying forward the treatment of volunteer services from AASB 1004 almost unchanged retains an inconsistency between private sector and public sector not-for-profit entities regarding the scope of the recognition requirements for volunteer services. The Board acknowledged the inconsistency reflects the transfer of recognition requirements for volunteer services to AASB 1004 upon the withdrawal of Australian Accounting Standards for specific types of public sector entity (namely, AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*) in 2007, rather than a difference in information needs of users of financial statements of not-for-profit entities in the private and public sectors.

BC110 Many respondents to ED 260 were of the view that the requirements with respect to the recognition of volunteer services should be the same for all not-for-profit entities. However, many opined that the recognition of volunteer services should be optional, primarily for cost–benefit reasons. Some encouraged the Board to expedite consideration of whether there was differentiation between entities in the sector to justify different accounting requirements. Others suggested that the treatment and location of information about volunteer services be reconsidered by the Board.

BC111 The Board considered how to progress its consideration of the accounting for volunteer services, having regard to the feedback received. The Board noted further consideration and due process would be required before it could finalise any broad changes to the current accounting requirements in this regard. Accordingly, the Board decided, as a short-term solution, to finalise the recognition and measurement proposals largely unamended from those exposed. (See also paragraphs BC123–BC124 below.)

BC112 The Board expects to consider the accounting requirements for volunteer services as part of a separate future project.

…

Disclosure

…

Disclosure of parliamentary appropriations and other related authorities for expenditure

BC131 When developing AASB 1004 (December 2007), the Board decided to defer consideration of whether disclosures of parliamentary appropriations should apply to not-for-profit public sector entities other than government departments, given the short-term nature of its project at that time. The Board noted that in due course, it would consider extending the application of the requirements.

BC132 As part of this project, the Board reviewed the specified disclosures of compliance with parliamentary appropriations and other externally-imposed requirements required of government departments which had been included in AASB 1004 (now deleted from that Standard). The Board decided, in light of changes in public sector financial management arrangements since originally developing these requirements, to propose extending the scope of disclosures in this regard to include other public sector entities that obtain part or all of their spending authority from parliamentary appropriations.

BC133 In reviewing the disclosures, the Board acknowledged constituent concerns that the interaction between two of the specified disclosures was unclear, as the scope of paragraph 64(e) of AASB 1004 was broader than the scope of paragraph 64(d). The Board decided to clarify its requirements in this regard by proposing in ED 260:

(a) not to carry forward the text of paragraph 64(e) into AASB 1058; and

(b) to require disclosure of the financial consequences of an unauthorised expenditure.

BC134 Respondents to the ED were generally supportive of the Board's proposals in this regard. In its redeliberations, the Board noted a concern raised that by extending the application of these disclosure requirements beyond government departments some might interpret the disclosure requirements as applying to for-profit entities in the public sector. The Board observed that the scope of AASB 1058 is limited to not-for-profit entities and therefore for-profit public sector entities would not be subject to these disclosures.

Authorised Version F2019C00455 registered 12/06/2019

BC135 The Board discussed a concern whether the proposed disclosure requirements duplicate existing disclosures in AASB 1055 *Budgetary Reporting*. The Board reaffirmed its view that these disclosures contain fundamentally different requirements from AASB 1055 and should be retained, as the disclosures are focused on information concerning how appropriations and other advances received have been expended, rather than the more broadly based requirements in AASB 1055 for actual to budget variance analysis (see paragraph BC28 in AASB 1055).

BC136 In addition, as part of its deliberations, the Board discussed whether to relocate disclosures about a government department's compliance with parliamentary appropriations and other externally-imposed requirements from AASB 1004 to AASB 1054 *Australian Additional Disclosures*, rather than this Standard. The Board concluded it would be more user-friendly to include these disclosure requirements in AASB 1058 given the nexus between the income of government departments and appropriated amounts.

BC137 Having regard to the feedback received, the Board decided to finalise the disclosure in this regard largely as exposed in ED 260.

…

Other

…

Contributions by owners

BC168 In developing ED 260, the Board noted the concerns of some constituents with the existing definition of "contributions by owners" (see Appendix A of AASB 1058) and Interpretation 1038 that includes for-profit public sector entities within its scope. The Board observed:

(a) the IASB has not defined a similar term employed within the definition of 'income' in IFRS Standards; and

(b) the IPSASB's Public Sector Conceptual Framework includes a broader definition of 'ownership contributions' than that in Australian Accounting Standards.

BC169 Acknowledging constituent concerns about application of the term, the Board decided to invite comment on the defined term "contributions by owners" as part of this project. The Board did not make a specific proposal regarding the definition of "contributions by owners". Instead, ED 260 illustrated what a replacement Standard for AASB 1004 would look like without that definition and particular related guidance, and posed related questions including whether a definition of 'contributions by owners' is still necessary, or appropriate.

BC170 In responding to the ED, constituents noted the definition in AASB 1004 can be problematic, identified a need for a definition of contributions by owners and expressed their support for applying the IPSASB definition or using the IPSASB definition as the basis for an Australian definition. Many respondents considered a definition was necessary to minimise diversity in practice.

BC171 In addition, the majority of respondents to ED 260 responding on this topic supported the withdrawal of Interpretation 1038.

BC172 Having regard to the feedback received, the Board considered whether to:

(a) withdraw and not replace the current definition in AASB 1004 and Interpretation 1038;

(b) replace the current definition in AASB 1004 with the definition of ownership contributions adopted by the IPSASB, and separately consider whether to retain an amended Interpretation 1038; or

(c) address the accounting for contributions by owners as part of a separate project.

BC173 The Board was conscious of the need to finalise its proposals on other aspects of its current project in a timely manner. The Board considered that developing any amendment to the definition, including ensuring adequate due process, would delay finalisation of its current project. Accordingly, the Board decided to progress consideration of 'contributions by owners' and the related requirements as part of a separate project. Consequently, the Board decided to retain, for the interim:

(a) the terms 'contributions' and 'contributions by owners' as presently defined in Australian Accounting Standards;

Authorised Version F2019C00455 registered 12/06/2019

(b) the requirements specified in AASB 1004 and AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* with respect to contributions by owners and distributions to owners; and

(c) the requirements specified in AASB 1004 with respect to contributions by owners and distributions to owners, including those arising in relation to restructures of administrative arrangements.

…