PRICEWATERHOUSECOOPERS

ED 144 sub 7

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Website:www.pwc.com/au
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

Professor David Boymal
The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Vic 8007

5 December 2005

Dear David

Exposure Draft 144: Proposed Australian Guidance to accompany AASB 1004 Contributions

We write in response to the request for comments contained in the November 2005 Australian Accounting Standards Board (AASB) "Exposure Draft 144: *Proposed Australian Guidance to accompany AASB 1004 Contributions*" (ED 144).

We are concerned the proposed guidance will introduce a fundamental change in the accounting for some contributions by not-for profit entities as a result of a reinterpretation of the requirements in AASB 1004. We are also concerned that the proposed guidance conflicts with AAS 27 *Financial Reporting by Local Governments* (AAS 27), AAS 29 *Financial Reporting by Government Departments* (AAS 29) and AAS 31 *Financial Reporting by Governments* (AAS 31). As a result, we do not believe the form or the timing of the change is appropriate.

If the Board decides to introduce this reinterpretation of the standard, we believe this should be done by changing the Standard. In making the change, the Board could consider how best to highlight the most fundamental change; the requirement to recognise a liability, rather than income, in respect of conditional contributions. Drawing attention to this would help preparers understand and implement the changes. We also encourage the Board to consider and seek feedback on whether specific transitional relief is appropriate where contributions have been reported as revenue in previous periods, and some conditions remain outstanding at the date of transition to the amended Standard.

Regardless of the form of the proposed change, we believe no change should be made until AASB 1004 is reviewed in conjunction with the proposed withdrawal of AAS 27, AAS 29 and AAS 31. To make the proposed change with further amendments imminent will only add uncertainty to what is already a confusing area of the literature.

We note that once the Standard is amended and reissued there would be a need to monitor the implications of projects being undertaken by the IASB on revenue and the conceptual framework, and the International Public Sector Accounting Standards Board (IPSASB) project on “non-exchange revenue”. At this stage, we do not see this as an impediment to revising the Standard in the manner outlined above, providing that the Board is not aware of a direction being taken in these projects which would be contrary to its current analysis.

We do not have any comments on the other specific matters raised for comment in ED 144 but we have some other comments on the draft guidance, if the Board decides to issue it as proposed. These are set out below.

Other comments

Preface: The requirements in AAS 27, AAS 29 and AAS 31 will override the guidance where an inconsistency arises until AAS 27, AAS 29 and AAS 31 are withdrawn

We agree with the proposal for existing Australian requirements in AAS 27, AAS 29 and AAS 31 to override any guidance the AASB issues until such time as these standards are withdrawn. We believe this should be clearly set out in the guidance itself as we are concerned the comments in the preface to ED 144 will be overlooked when the guidance is implemented and this could result in inconsistent reporting by local governments, government departments and governments.

We are also concerned that the commentary in the preface to ED 144 alludes to the inconsistencies between the existing requirements in AAS 27, AAS 29 and AAS 31 relating to accounting for contributions and the proposed requirements without making a clear statement that the proposed guidance would result in a fundamental change in the accounting for some contributions when those standards are withdrawn . As noted above, the most fundamental change will be the requirement to recognise a liability, rather than income, in respect of conditional contributions.

For example, paragraph 64 of AAS 27 and paragraph 14.1.2 of AAS 31 64 stipulate that a contribution is recognised as revenue when the entity obtains control over the asset, irrespective of whether a condition is imposed on the entity as to the use of the contribution. Paragraph 4.1.3 of AAS 31 also specifies that a liability would only be recognised when a condition was breached or failed to be met. This is fundamentally different from the guidance in paragraphs G4 to G12 of the proposed guidance. The proposed guidance would require a liability (and corresponding asset) to be recognised when a contribution is subject to a stipulation that would result in the return of the contribution if it is not met.

The Board will need to make the potential changes very clear when it releases the exposure draft proposing the withdrawal of AAS 27, AAS 29 and AAS 31. Consideration should also be given to whether specific transitional relief should be provided for government entities to apply on the initial adoption of AASB 1004 when the other standards are withdrawn.

Paragraph G5. Flowchart for determining the recognition of inflows

We believe the flowchart in paragraph G5.will assist users in applying the proposed guidance and determining the appropriate accounting treatment for contributions. However, we suggest the Board adds some commentary indicating what types of inflows will not meet the definition of an asset as this would clarify the relevance of the first step in the flow chart.

Paragraph G12. "…..However, these amounts are in the nature of a prepayment. Such amounts are in the nature of reciprocal transaction, and would be treated consistently with the treatment of prepayments in accordance with AASB 118."

We found the references to prepayments confusing in the commentary in paragraph G12.on the accounting for funding provided to state government entities. We understand this is referring to advance payments, but revenue received in advance is more generally referred to as 'deferred revenue', rather than a 'prepayment'. We suggest the Board consider clarifying this commentary.

PRICEWATERHOUSECOOPERS

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 or Peter Denovan on (03) 8603 6869 if you would like to discuss this further.

Yours sincerely

Jan McCahey
Partner
Assurance