23 May 2006

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Dear Sir,

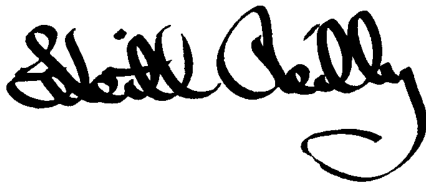
ED 147: Revenue from Non-Exchange Transactions (Including Taxes and Transfers)

The Institute of Chartered Accountants in Australia (ICAA) welcomes the opportunity to make a submission on ED 147.

We support the proposals contained in the ED. They go along way to ensure that transactions are accounted for on a consistent basis regardless of the type of organisation that is undertaking the transaction.

Our detailed comments can be found in the appendix to this letter. If you require any further information on any of our views please contact Roslyn Hatton CA on 02 9290 2702.

Yours sincerely



Keith Reilly FCA
Technical Standards Advisor

Appendix

Specific Matters for Comment to AASB

(a) any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to implementation by non-for-profit entities in the private sector;

No issues identified

(b) whether the proposals are in the best interest of the Australian economy;

No issues identified

IPSASB Questions

The IPSASB would value comments on the proposals to:

a) Exclude entity combinations that are non–exchange transactions from the scope of the standard

The ICAA believes that this is appropriate as entity combinations are dealt with in AASB 3 "Business Combinations".

b) Include within the scope of the IPSAS compulsory contributions to social security schemes (e.g. health and disability insurance, aged pensions) which are in the nature of non-exchange transactions. In particular:

i) Do you think that these compulsory contributions to social security schemes should be explicitly excluded from the scope?

Compulsory contributions to social security schemes are not an issue for Australian entities, as the contributions to our superannuation schemes for defined contribution schemes are the property of the member and not the entity contributing them. In the case of defined benefit plans that have a surplus or deficit Accounting Standard AASB 119 deals with the issue of how to account for a surplus or deficit in the books of the contributing entity.

If social security schemes were then deemed to cover Medicare contributions the Australian Government already takes these contributions to revenue. So the issue is unlikely to affect Australia. There is no reason why social security scheme compulsory contributions should be excluded as they form an integral part of Government Revenue.

ii) Do you think that the ED gives enough guidance in respect of such compulsory contributions? If not, do you think the IPSAS should explicitly address these compulsory contributions and provide specific guidance to assist entities determine to what extent such contributions should be considered as exchange transactions? (See paragraph BC27)

If the purpose of the standard is to ensure consistency and comparability between entities' financial statements, then it is the ICAA's opinion that the standard should explicitly address the issue to enable entities to determine on a consistent basis to what extent such contributions should be considered as exchange transactions.

c) Define terms as set out in paragraph 8. These definitions have been developed by the IPSASB for the IPSAS. Please identify any amendments to the definitions that you consider necessary.

Some of the definitions as proposed in paragraph 7 do not exactly tie up with the wording of such definitions when used in other standards. For example the proposed definition for revenue is not exactly the same as the definition for revenue that appears in AASB 118 "Revenue'. Definitions used should be consistent between IFRS and IPSAS.

The ICAA has no other comments on the proposed definitions are contained in paragraph 8.

d) Distinguish exchange and non-exchange components of non-exchange transactions. Paragraphs 11 and 12 note that these transactions may comprise two components, one of which is an exchange transaction, each component of which is recognized separately.

We agree with the requirements as set out in paragraphs 11 and 12 and the principles used here are consistent with the principles used in other standards, such as splitting investment instruments between equity and liability components.

e) Include guidance to clarify that restrictions do not give rise to the recognition of a liability on initial recognition of the transferred asset (paragraph 20). Do you agree that restrictions do not give rise to liabilities on initial recognition of the transferred asset?

We agree that restrictions do not give rise to liabilities on initial recognition of the transferred asset. In some cases the restrictions may be such that the criteria for asset recognition are not met. It is recommended that guidance be included to clarify the situation.

f) Require recognition of assets when resources are transferred or when the reporting entity has an enforceable claim to resources that are to be transferred (see paragraphs 33 –34 and paragraph 80). The ED notes that before a claim to a resource is enforceable, the resource does not meet the definition of "control of an asset" because the recipient reporting entity cannot exclude or regulate the access of the transferor to the resource.

We agree with the proposed treatment.

g) Measure assets acquired in a non-exchange transaction at their fair value on initial recognition and amend IPSAS 12, "Inventories", IPSAS 16, "Investment Property" and IPSAS 17, "Property, Plant and Equipment" to be consistent with this requirement (see paragraphs 38 –39 and the Appendix). IPSAS 12 currently requires inventory to be initially recognized at cost, and IPSASs 16 and 17 currently require that where assets are acquired for no costs or a nominal cost, their cost is their fair value as at the date of acquisition.

We agree with the proposed treatment.

h) Require that a liability be recognized in respect of an asset transferred subject to conditions upon initial recognition of the transferred asset (paragraph 50). When the condition has been satisfied the liability is reduced, or derecognised, and revenue recognized. Alternatively, do you consider that the IPSAS should only require the recognition of a liability when it is more likely than not that the condition will not be satisfied (see paragraph BC11)? In addition, are you of the view that the requirements relating to the recognition of a liability in respect of a condition applies equally to depreciable and non-depreciable assets?

If it is more likely than not that the conditions of transfer of an asset will not be met then the amount should not be recognized as a liability. This is because if the conditions are unlikely to be met then it is also unlikely that the asset would met the criteria for recognition and recognizing both would artificially boost the balance sheet.
We are of the view that the requirements relating to the recognition of a liability in respect of a condition applied equally to depreciable and non-depreciable assets.

i) Require liabilities related to inflows of resources to be measured according to the requirements of IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" (paragraph 52).

It would appear that the idea behind the ED is to try and ensure that Governments account for their transactions on exactly the same basis as other entities, that is, that from an accounting point of view, regardless of what kind of entity undertakes the transaction, it should be accounted for in the same manner. This ensures that accounts are comparable. With this view in mind, it is appropriate that entities using a standard based on this ED measure their liabilities in a manner consistent with the requirements of IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets".

j) Require a non-exchange transaction that gives rise to the recognition of revenue to the extent that a liability is not recognized (paragraph 54). Are there any non-exchange transactions in which it would be appropriate to initially recognize the gross inflow of economic benefits or service potential represented by the asset as revenue even if a liability is also recognized, with the simultaneous recognition of an expense for the liability?

We were unable to identify any non-exchange transactions where it would be more appropriate to initially recognize revenue even if a liability is also recognized with the simultaneous recognition of an expense for the liability. We agree with the general principles in paragraph 54.

k) Require a reporting entity to recognize liabilities in respect of advance receipts related to taxes (see paragraph 67) and advance receipts related to transfers (see paragraph 105).

We agree with the treatment being recommended. It is consistent with what is required by other entities in recognizing unearned income.

l) Not permit the netting of expenses paid through the tax system (see paragraphs 72 – 76) against taxation revenue. Instead such expenses must be recognized separately on a gross basis. The ED distinguishes between expenses paid through the tax system and tax expenditures, and notes that tax expenditures are foregone revenue, not expenses.

We agree with the treatment being recommended. It is consistent with what is required by other entities in not being able to offset amounts unless there is a legal agreement to do so.

m) Permit recognition of services in-kind that satisfy the recognition requirement (see paragraphs 99 –103) and require disclosure of the nature and type of services in-kind received, whether recognized or not (paragraph 107-108).

Allowing, but not requiring an organization to recognize services in-kind as revenue and as an asset will not enhance the comparability of accounts between organizations.

We suggest that the recognition of services in kind as revenue be either forbidden or made mandatory.

n) Provide entities a five year period in which to conform their accounting policies in respect of taxation revenue to the requirements of this Standard. (See paragraphs 115 – 122). Do you believe that transitional provisions should be provided in respect of other non-exchange transactions?

As Government accounting/budgeting is done 5 years in and the expected expenditure and budgets published we agree that there should be at least a five year period after the release of the standard until compulsory compliance and that this transitional provision should apply to all of the standard, not just in respect of taxation revenue.