

Our Reference TRO-15918

The Chairman
Australian Accounting Standards Board
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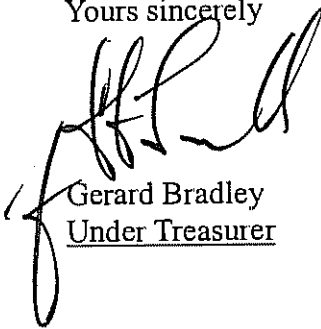
Dear Sir

Exposure Draft 147 Revenue from Non-Exchange Transactions (Including Taxes and Transfers)

Queensland Treasury supports a number of the key concepts proposed in the above Exposure Draft. Detailed comments in relation to 'Specific Matters for Comment' provided by the International Public Sector Accounting Standards Board are attached.

Should you wish to discuss any of these comments further, Ms Sue Highland, Acting Director of the Financial Management Branch can be contacted on (07) 340 56064.

Yours sincerely



Gerard Bradley
Under Treasurer

Encl

**ED 147 Revenue from Non-Exchange Transactions (Including Taxes and Transfers)
Specific Matters for Comment**

- (a) Exclude entity combinations that are non-exchange transactions from the scope of the standard (see para 2).**

Given the exposure draft deals specifically with “Revenue” it would not be appropriate for entity combinations of Government to be included, as such transactions do not give rise to revenue. On this basis, Queensland Treasury supports the exclusion of such transactions from the scope of this exposure draft.

Notwithstanding this view, Queensland Treasury believes that the accounting treatment of entity combinations that are non-exchange transactions should be addressed in an appropriate standard.

- (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 these compulsory contributions to social security schemes should be explicitly excluded from the scope?**
- ii. **Do you think the ED gives enough guidance in respect of such compulsory contributions? If not, do you think 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 BC27).**

Queensland Treasury supports the exclusion of such transactions on the basis they would be better dealt with as part of the Board’s project on ‘Social Policy Obligations.’

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

Queensland Treasury supports the definitions contained in the exposure draft. However, in relation to the definition of ‘non-exchange transactions’ Treasury notes that the concept of parties not ‘directly’ giving or receiving ‘approximately equal value in exchange’ has caused a number of application issues in Australia in relation to ‘reciprocal’ versus ‘non-reciprocal’ transactions. Additional guidance is recommended in relation to determining ‘approximately equal value’.

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

Queensland Treasury supports the separate recognition of the exchange and non-exchange components of a transaction, however, recognises that this may be difficult in practice.

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

Given the confusion to date on the treatment of reciprocal/non-reciprocal transactions, it is considered that additional guidance is warranted.

Queensland Treasury can see an argument to support that restrictions do not give rise to liabilities on initial recognition of the transferred asset. However, we have some concerns regarding consistent application of concepts across standards. For example:

In an exchange transaction, where revenue is received in advance it is standard practice to recognise a liability until such time as the goods/services are delivered. It is difficult to argue that the accounting treatment should differ because the transfer is subject to restrictions specifying goods/services be delivered to a third party, simply because there is no stipulation in the transfer agreement requiring the funds to be returned.

If two transfers were subject to contracts that were identical in every clause regarding delivery of goods and services to a third party, except that one required the return of funds and one didn't, there is some concern as to whether this alone sufficiently changes the substance of the transaction so that a different accounting treatment will apply.

Further, if we look at the general principles surrounding liabilities, a liability is only recognised when it is probable. Using this principle, the accounting treatment should be dependent on the likelihood of default. Until it is probable that the conditions will be breached resulting in the return of economic benefit, no liability should be recognised.

- (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 paras 33-34 and para 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.**

Queensland Treasury supports this in principle, however believes additional guidance will be required to ensure consistency of application in practice.

- (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 paras 38-39 and Appendix). IPSAS 12 currently requires inventory to be initially recorded at cost, and IPSASs 16 and 17 currently require that where assets are acquired for no costs or at a nominal cost, their cost is their fair value as at the date of acquisition.**

Queensland Treasury supports this proposal in relation to non-exchange transactions with non related entities. However, where assets are transferred between related entities as a result of an owner's contribution or withdrawal, Queensland Treasury's view is the assets should be measured at the value in the transferor's accounts immediately prior to transfer. Where appropriate, Queensland Treasury would support the transferor revaluing the asset to fair value immediately prior to the transfer taking place. Queensland Treasury proposes that such owner's contributions should be excluded from the scope of this exposure draft and dealt with in a separate standard.

- (h) Require that a liability be recognised in respect of an asset transferred subject to conditions upon initial recognition of the transferred asset (para 50). When the condition has been satisfied the liability is reduced, or derecognised, and revenue recognised. 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 para 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?**

The treatment of non-exchange assets transferred subject to conditions in relation to the recognition of a liability should be consistent irrespective of whether or not the asset is depreciable. At all times the value of the liability should reflect the value that would be returned to the transferor. Therefore, where an asset is depreciable, and is to be returned if conditions are not met, until such time as the conditions are satisfied the value of the liability should be adjusted periodically to reflect the net carrying amount of the asset (ie. less accumulated depreciation). The basis for this argument being the net carrying amount of the asset reflects the value that would be returned to the transferor if the conditions were not met.

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

Queensland Treasury supports this approach.

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

Queensland Treasury supports the approach in paragraph 54 and is not aware of any transactions where it would be appropriate to initially recognise a revenue and a liability with a simultaneous expense.

- (k) Require a reporting entity to recognise liabilities in respect of advance receipts related to taxes (see para 67) and advance receipts related to transfers (see para 105).**

Queensland Treasury supports this treatment. As indicated earlier however, it could be argued that all receipts where there are restrictions or conditions, depending on the nature and extent of these could in fact result in a liability being recognised, as it could be argued that until the conditions or restrictions are satisfied, the funds are in substance advance receipts.

- (l) Not permit the netting of expenses paid through the tax system (see paras 72-76) against tax revenue. Instead such expenses must be recognised 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.**

Queensland Treasury supports this treatment.

- (m) Permit (but not require) recognition of services in-kind that satisfy the recognition requirements (paras 99-103) and require disclosure of the nature and type of services in-kind received, whether recognised or not (paras 107-108).**

In accordance with current Australian Accounting Standards Queensland Government Departments recognise goods and services received in-kind at fair value when:

- control is obtained;
- it is probable benefits will flow to the department; and
- the fair value can be measured reliably.

Where services are donated (eg. volunteer work) they are only recognised where they can be reliably valued and where they would have been purchased had they not been donated.

Treasury believes that on the basis of consistency, recognition of services should not be optional but required by government where the recognition criteria are met; and the services would have been purchased had they not been donated.

Disclosure of the nature and type of services in-kind received is supported irrespective of whether or not they are recognised

While this exposure draft is a Public Sector Exposure Draft, as in Australia all entities apply a single set of standards, Treasury would not advocate mandatory recognition of such services for voluntary and community organisations as the costs of recognition could have the capacity to exceed any benefits.

- (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 paras**

115-122). Do you believe that transitional provisions should be provided in respect of other non-exchange transactions?

Queensland Treasury supports the extended transitional period in respect of taxation revenue requirements. In relation to other non-exchange transactions, Queensland Treasury does not believe Queensland Government entities will require five years to modify their accounting practices to comply with the proposals in the exposure draft as they currently stand.

(o) Other issues

Queensland Treasury suggests that as Government provides substantial funding to business and the community via non-exchange expenses such as grants, subsidies, contributions and other similar items, all aspects of non-exchange transactions, not just revenues should be addressed.

On the basis of the treatment in the exposure draft of non-exchange revenue, it is assumed that similar principles would apply in relation to the recognition of non-exchange expenses. That is, an asset would be recognised where conditions exist on such a payment, but not where restrictions exist. Queensland Treasury suggests that the treatment of non-exchange expenses be explicitly addressed in an appropriate standard.