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## **City of Cockburn Submission to Australian Accounting Standards Board**

### **Exposure Draft – Fatal Flaw Drafts – Income of Not for Profit Entities(AASB 10XX and AASB 2016-X) September 2016**

The City of Cockburn would like to provide comments on this exposure draft that specifically relate to AASB 1004 Contributions, paragraph 30. The last sentence of this paragraph states “Control over assets acquired from local government rates would be obtained at the commencement of the rating period or, where earlier, upon receipt.”

It is the City’s view that local government rates received in advance (i.e. received from ratepayers towards their rates to be levied in a future financial year), should be treated as a current financial liability. This view is premised on the following nature and characteristics of the concerned transactions:

- Payments made by ratepayers towards their future rates are purely voluntary in nature.
- Until the rates for the future period have actually been levied, there is no obligation on the ratepayer to make payment.
- The City is obliged to refund any rates paid in advance, if requested to by ratepayers.
- Control over the assets associated with the rates received in advance does not pass to the City until the following period’s rates have been levied with rates notices issued.
- Legislation applicable to local government requires it to determine the amount of rates it needs to generate each financial year in order to meet its financial commitments and liabilities (rate setting statement) and then set the appropriate rate charges based on this need. Treating rates received in advance as revenue in a prior period compromises and confuses this calculation.

The above points essentially convey the City’s view on this matter. The current treatment being applied by the City in accordance with AASB 1004 is having a material impact on the City’s financial performance and reporting, with nearly \$2M of rates paid in advance for the latest financial year. We look forward to the board making a sensible and pragmatic change to the accounting standard in this regard.

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