Explanatory Statement

AASB 1004 *Contributions*

December 2007

Australian Government

Australian Accounting Standards Board

EXPLANATORY STATEMENT

Reasons for Revising AASB 1004

AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments* were first issued in 1991, 1993 and 1996 respectively. While AASs 27, 29 and 31 had been subject to a number of limited reviews since then, the requirements in these Standards needed a comprehensive review because:

(a) there had been significant developments in Australian financial reporting, in particular adopting IFRSs within Australian Accounting Standards, for reporting periods beginning on or after 1 January 2005. As a result of these developments, uncertainties emerged as to 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;

(b) local governments, government departments and governments were subject to requirements that differed from requirements applicable to other not-for-profit entities and for-profit entities contained in Australian Accounting Standards. An objective of the Board is to put in place transaction-neutral standards that will treat like transactions and events consistently;

(c) the Board had made significant progress in its project on the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) so far as it relates to the General Government Sector (GGS) and the whole of government of the federal, state and territory governments. It was therefore particularly timely to review the requirements in AAS 31;

(d) they did not reflect contemporary accounting thought; and

(e) they did not reflect the current style of writing standards, which is to specify principles rather than rules, and requirements rather than encouragements.

The Board intends to continue with its policy of developing a common accounting standards framework for both for-profit and not-for-profit entities whilst acknowledging differences in some areas. The Board is committed to having a platform of topic-based transaction-neutral Standards that will apply to the public sector.

Review of AASs 27, 29 and 31

The Board initiated a project for reviewing the requirements in AASs 27, 29 and 31, divided into two phases comprising a short-term and a longer-term review.

The primary focus in the short-term review has been on relocating, where necessary, the requirements in AASs 27, 29 and 31, substantively unamended (with some exceptions), into topic-based Standards.

In the longer term the focus will be on improving the requirements for each topic-based issue where necessary. The longer-term review will be carried out in stages as outlined in the AASB's Public Sector Policy Paper *Australian Accounting Standards and Public Sector Entities*. A review by the AASB of non-exchange income, which will incorporate a review of contributions, is in progress at the time of revising this Standard.

AASB 1004 in the Context of the Review of AASs 27, 29 and 31

The Board decided to relocate the requirements on contributions from AASs 27, 29 and 31, substantively unamended (with some exceptions, as noted in Appendix B), into AASB 1004.

The Board outlined its short-term proposals in Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*, which was issued in June 2007.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 July 2008. Early adoption is permitted for 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*.

Main Requirements

This Standard:

(a) in its application to contributions to not-for-profit entities:

 (i) requires income to be measured at the fair value of the contributions received or receivable (paragraph 11);

 (ii) requires income from a contribution to be recognised when an entity obtains control of the contribution or right to receive the contribution, it is probable the economic benefits comprising the contribution will flow to the entity, and the amount can be measured reliably (paragraphs 12-15);

 (iii) requires the gross amount of a liability forgiven by a credit provider to be recognised by the borrower as income (paragraphs 16 and 17); and

 (iv) requires certain disclosures relating to contributions of assets and forgiveness of liabilities (paragraph 18);

(b) in its application to local governments, government departments that are reporting entities, GGSs and whole of governments:

 (i) provides guidance on the recognition of contributions other than contributions by owners (paragraphs 19-30);

 (ii) requires contributions of services to be recognised under certain circumstances (paragraphs 44-47); and

 (iii) requires certain disclosures in relation to contributions recognised as income (paragraphs 60-62);

(c) in its application to local governments, government departments that are reporting entities, and whole of governments, requires recognised contributions by and distributions to owners to be accounted for as a direct adjustment to equity (paragraphs 48-53);

(d) in its application to government controlled not-for-profit entities and for-profit government departments that are reporting entities:

    (i) defines restructures of administrative arrangements and specifies that they are in the nature of transactions with owners in their capacity as owners to be recognised on a net basis (Appendix A and paragraphs 54-56);

    (ii) requires a transferee in a restructure of administrative arrangements to disclose, where practicable, the expenses and income attributable to transferred activities for the reporting period, showing separately those expenses and income recognised by the transferor during the reporting period (paragraph 57); and

    (iii) requires certain other disclosures relating to restructures of administrative arrangements (paragraphs 58 and 59); and

(e) in its application to government departments that are reporting entities:

    (i) provides guidance on the treatment of taxes collected by a government department (paragraph 31);

    (ii) provides guidance on the treatment of parliamentary appropriations (paragraphs 32-38);

    (iii) specifies requirements relating to the assumption of a government department's liability by another entity (paragraphs 39-43);

    (iv) requires disclosure of appropriations by class and liabilities that were assumed during the reporting period by the government or other entity (paragraph 63); and

    (v) specifies requirements relating to disclosure of compliance with parliamentary appropriations and other externally imposed requirements (paragraphs 64-68).

Consultation prior to Issuing this Standard

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 Standard, listing each paragraph 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. These paragraph-by-paragraph analyses were made available on the AASB website for the information of constituents.

Formal proposals were included in Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*, which was issued in June 2007 for public comment by 3 September 2007. Eighteen submissions were received. After considering the submissions, the AASB decided to amend some of the proposals before reflecting its decisions in AASB 1004.

A Regulatory Impact Statement has not been prepared in connection with the issue of this Standard as the amendments made do not have a substantial direct or indirect impact on business or competition, are of a minor or machinery nature or clarify existing requirements.