

QUEENSLAND TREASURY
SUBMISSION TO AASB RE AASB ED 260 *Income of Not for profit Entities*

[NB. Queensland Treasury is not responding to each question in ED 260]

Specific matters for comment

- 1. In relation to the AASB's proposal to replace the reciprocal/non-reciprocal transfer distinction in AASB 1004 with income recognition requirements based on whether a not-for-profit entity needs to satisfy a performance obligation:
 - (a) do you agree that this proposal would provide a faithful depiction of a not-for-profit entity's financial performance?**
 - (b) If not, what alternative approach to income recognition would you recommend for not-for-profit entities? Please provide your reasons.****

Queensland Treasury (Treasury) considers the AASB's proposal improves the timing of recognition of revenue that falls within the scope of AASB 1004 *Contributions*. However, Treasury remains concerned that 100% up front revenue recognition provides a misleading depiction of financial performance of any entity where that revenue has been specifically designated by the payer for future reporting periods, but is received in advance of such reporting periods. In such situations, Treasury believes a more faithful depiction of financial performance would be for the revenue to be recognised only in the reporting period(s) to which it is specifically attributable.

For example, Financial Assistance Grants (FAG) to local governments are paid by the Australian Government in relation to a particular financial year. The 2015-16 FAG was paid to the States on 30 June 2015. Under AASB 1004, Queensland recognised revenue as at 30 June 2015, and accrued a corresponding expense. Due to the date of the subsequent payment by State Treasuries, the local governments recognised the revenue in 2015-16.

Therefore, Treasury questions whether the assertion in the last sentence of paragraph BC35 is supportable in most situations. Instead, Treasury considers most preparers would consider that where funds received are specified for a particular future reporting period(s), this means that the funds are for expenditure during that period(s); therefore, corresponding revenue should not be reported until that reporting period(s).

Draft standard AASB 10XX seems to be based on a premise that all voluntary transfers warrant the same conceptual basis for the timing of revenue recognition. However, a wide range of revenue falls into the scope of draft standard AASB 10XX. Paragraphs AG2 and AG3 acknowledge there are different circumstances for different types of revenue - "Government appropriations establish the authority to expend money for particular purposes" (AG2 refers), and "donations are normally free from specifications" (AG3 refers). Therefore, Treasury considers there are some grounds to distinguish between different types of revenue.

On that basis, Treasury considers there is validity in tailoring the recognition principles to ensure that where revenue is specifically designated by the payer for one or more future reporting periods, its recognition as revenue should only occur in those future periods. Treasury believes that the AASB should validate its recognition principles for recipients, by assessing the timing of recognition as an expense by the transferor under a variety of scenarios.

Consistency between for-profit and non-for-profit sectors

Treasury is also concerned about the continued different conceptual rationales for revenue recognition for not-for-profit and for-profit entities (the latter being according to AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*). This remains at odds with the AASB's publicly stated position that accounting standards be neutral across sectors.

AASB 120 requires government grants to be recognised as revenue on a systematic basis over the periods necessary to match them with the related costs that they are intended to compensate. Similarly, most forms of revenue caught by the scope of AASB 10XX would be for the purpose of funding expenditure related to the delivery of services for a specified period of time. However, the timing of recognition of the same revenue under the ED 260 proposals would continue to be fundamentally different to that under AASB 120, according to the for-profit/not-for-profit status of the entity.

2. In relation to the AASB's proposal that, to qualify as a performance obligation, a not-for-profit entity's promise to transfer a good or service to a counterparty in a contract must be 'sufficiently specific' to be able to determine when the obligation is satisfied (see paragraph IG13 of Part A):
- (a) do you agree with this proposal?
 - (b) if not, what factors or criteria should apply to determine whether a not-for-profit entity has a performance obligation? Please provide your reasons.

Refer to Queensland Treasury's concerns outlined above regarding question 1. It should be noted that, under current circumstances, the proposed revenue recognition criteria are unlikely to make a significant difference for most revenue of not-for-profit public sector entities.

3. Do you agree with the proposal in paragraphs IG 19 – IG 30 of Part A that a not-for-profit entity would recognise a donation component in a contract with a customer as immediate income only if:
- (a) a qualitative assessment of available evidence indicates that the customer intended to make a donation to the not-for-profit entity; and
 - (b) the donation component is separately identifiable from the goods or services promised in the contract? (See also paragraphs BC36-BC49 of the Basis for Conclusions.)

If not, under what circumstances should a not-for-profit entity identify and account separately for a donation that is provided as part of a contract with a customer?

Queensland Treasury supports these proposals.

To reduce confusion about the scope of AASB 15 *Revenue from Contracts with Customers* vs AASB 10XX, Treasury recommends that the AASB slightly amend the wording of paragraph IG30 to read "Donations that are separately identifiable ~~not a component of a contract with a customer~~ are accounted for ...".

6. Australian Accounting Standards applicable to for-profit entities do not include a definition of 'contributions by owners'. Further, concerns have been expressed by some that the definition of 'contributions by owners' in AASB 1004 is too narrow. Do you consider that a definition of 'contributions by owners' is still necessary, or appropriate, in Australian Accounting Standards? If so, would you prefer using:

- (a) the definition of 'contributions by owners' presently in AASB 1004; or
- (b) the definition of 'ownership contributions' in the Public Sector Conceptual Framework issued by the International Public Sector Accounting Standards Board (IPSASB)? (See also paragraphs BC84-BC91 of the Basis for Conclusions.)

Queensland Treasury believes the present definition in AASB 1004 does not reflect how equity is established and managed in not-for-profit public sector entities.

Treasury prefers removal of the definitions and guidance regarding "contributions by owners" and "distributions to owners". As stated in paragraph BC93, equity in the public sector is generally only a residual, and any further disaggregation is of questionable value. The concept of "owners" does not translate well to a public sector context, and probably not even to many private sector not-for-profit entities. In States/Territories, Treasuries can develop/maintain their own guidance for their entities to ensure some discipline/consistency in accounting.

7. The AASB also seeks views on the following issues related to contributions by owners:

- (a) **whether, in view of concerns expressed by some that using AASB 1004's definition of 'contributions by owners' in AASB Interpretation 1038 Contributions by Owners Made to Wholly Owned Public Sector Entities (which includes for-profit public sector entities in its scope) might prevent a for-profit entity in the public sector from making an unreserved statement of compliance with IFRSs, AASB Interpretation 1038 should be:**
 - (i) **withdrawn;**
 - (ii) **retained but with narrower application [that is, limited to not-for-profit entities in the public sector, and possibly also confined to identifying which not-for-profit public sector entities should account for transfers between them when they are controlled by the same parent (government)]; or**
 - (iii) **retained without amendment? (See also paragraphs BC84-BC94 of the Basis for Conclusions.)**

Queensland Treasury has a number of problems with Interpretation 1038 (refer below), so of the options listed, Treasury prefers withdrawal of the Interpretation.

- (b) whether requirements for restructures of administrative arrangements (presently set out as paragraphs 54-59 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraph BC90(b) of the Basis for Conclusions);**

Queensland Treasury strongly prefers removal of those requirements. “Restructures of administrative arrangements” as per the AASB 1004 definition only apply to transfers of businesses (as defined by AASB 3 *Business Combinations*), and the AASB 1004 scope of entities to which those paragraphs apply is too arbitrary. In most jurisdictions, the term “restructures of administrative arrangements” refer to the transfer of not-for-profit functions/assets/liabilities/resources between departments arising from machinery-of-Government changes, so many preparers interpret those paragraphs in AASB 1004 as having a broader scope than intended. Treasury agrees with the AASB’s logic in paragraph BC91(b).

- (c) whether requirements for distributions to owners (presently set out as paragraphs 49 and 53 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraphs BC94-BC96 of the Basis for Conclusions);**

Queensland Treasury prefers removal of these requirements/guidance. Refer to our comments above regarding the notion of equity in the public sector.

- (d) whether requirements for liabilities of government departments assumed by other entities (presently set out as paragraphs 39-43 of AASB 1004) should still be included in Australian Accounting Standards (see also paragraphs BC97-BC98 of the Basis for Conclusions); and**

Queensland Treasury strongly prefers removal of paragraphs 39-43. Treasury does not consider those paragraphs add any value by anticipating and describing funding arrangements that exist in jurisdictions.

- (e) the practical implications if the definition of ‘contributions by owners’ and AASB Interpretation 1038 were to be withdrawn?**

As mentioned above, Queensland Treasury prefers removal of the “contributions by owners” definition and Interpretation 1038. Treasury already has extensive guidance that applies Interpretation 1038 to our circumstances. In the absence of Interpretation 1038, State/Territory Treasuries can develop/maintain their own guidance to maintain some discipline over accounting treatments by agencies in their jurisdiction, while allowing more pragmatic approaches to transfers of (non-business) functions, assets etc. between agencies.

Attached is an example of current policies/guidance (APG 9) issued to Queensland departments and statutory bodies to ensure consistent application of the requirements of Interpretation 1038. Queensland would expect all State/Territory Treasuries would have issued similar policies in their jurisdiction for a similar purpose.

Below are the problems Treasury has with Interpretation 1038 –

- it is difficult to read/interpret and has a certain amount of duplication;
- it prevents transfers of asset revaluation surpluses between agencies;
- it doesn't accommodate transfers of liabilities/net liabilities; and
- the wording of Interpretation 1038 assumes Government "owners" make explicit decisions about the accounting treatment (i.e. adjustments against equity) of transfers of assets/liabilities (a "top-down" approach), which is not generally the case. Therefore, in order to create scope for the application of Interpretation 1038's requirements, recommendations to the Government "owners" to make corresponding adjustments to equity are instigated by public sector entities themselves (a "bottom-up" approach).

8. In relation to disclosure requirements regarding compliance by government departments with appropriations, do you agree with:

- (a) omitting the requirement in paragraph 64(e) of AASB 1004 to disclose the nature and probable financial effect of any non-compliance by the government department with externally-imposed requirements for the period, other than any non-compliance reflected in material variances between amounts appropriated and amounts expended? (See paragraphs BC99-BC103 of the Basis for Conclusions.)**

Queensland Treasury supports removal of this disclosure requirement.

- (b) extending the scope of the retained disclosure requirements for government departments (i.e. those regarding any non-compliance reflected in material variances between amounts appropriated and amounts expended) to also apply to any other public sector entities that obtain part or all of their spending authority from parliamentary appropriations? (See also paragraphs BC99-BC103 of the Basis for Conclusions.)**

Queensland Treasury believes these disclosures are less likely to apply to non-departmental public sector entities (due to jurisdictional budgetary/funding arrangements).

Other comments about the proposed disclosures –

- Treasury questions how the notions of “authorised expenditure” and “unauthorised expenditure” are to apply, given the high level/all-encompassing practices that usually exist for the Government’s authorisation of expenditure. For that reason, “unauthorised expenditure” is expected to be very infrequent in occurrence;
- Treasury also notes that the disclosures don’t deal with lapsed appropriations (and therefore appear unbalanced in their focus); and
- in relation to the application to public sector entities within the scope of AASB 1055 *Budgetary Reporting*, HoTARAC notes that in practice there would be an element of duplication in relation to appropriated amounts (due to the line items likely used by jurisdictions for their budgeted financial statements).

General matters for comment

The AASB would also particularly value comments on the following:

10. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(a) not-for-profit entities; and

Queensland Treasury has nothing to add.

(b) public sector entities, including GAAP/GFS implications (discussed above).

We note that the Australian Bureau of Statistics (ABS) is in the process of revising its Government Financial Statistics (GFS) manual to align to the revised International Monetary Fund (IMF) GFS manual, which is yet to be published. The ED has noted some differences arising between the IMF GFS manual and certain proposals in ED 260. Queensland Treasury strongly recommends the AASB liaise with the ABS about those differences with a view to minimising GAAP/GFS differences.

- 11. Whether, overall, the proposals would result in financial statements that would be useful to users.**

Queensland Treasury considers that 100% up-front revenue recognition may be misleading to users in some situations (e.g. where revenue specifically designated for future periods is received in advance). Refer to our responses to earlier questions.