

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 1004.

Introduction

- BC1 This Basis for Conclusions summarises the Board's considerations in revising AASB 1004 *Contributions* in the context of the Board's short-term review of the requirements in AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*.

Background

- BC2 The Board considered it timely to review the requirements in AASs 27, 29 and 31, in particular to:
- (a) review the extent to which local governments, government departments and governments should continue to be subject to requirements that differ from requirements applicable to other not-for-profit entities and for-profit entities contained in Australian Accounting Standards. The Board concluded that differences should be removed, where appropriate and timely, to improve the overall quality of financial reporting;
 - (b) bring requirements applicable to local governments, government departments and governments up-to-date with contemporary accounting thought;
 - (c) consider the implications of the outcomes of its project on the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS), in particular, on the requirements in AAS 31;
 - (d) decide whether the encouragements in AASs 27, 29 and 31 should be made mandatory or removed; and
 - (e) remove uncertainty in 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.
- BC3 The Board considered the following alternative mechanisms for implementing the approach of updating and improving the requirements for local governments, government departments and governments:
- (a) review the requirements in AASs 27, 29 and 31 and, where appropriate:
 - (i) amend other Australian Accounting Standards to pick up any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards and have them apply to local governments, government departments and governments; or
 - (ii) create public sector specific topic-based Standards; and consequently withdraw AASs 27, 29 and 31; or
 - (b) review AASs 27, 29 and 31 and re-issue them in light of the latest Australian Accounting Standards, retaining/amending where necessary any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards.
- BC4 The Board chose alternative (a) given the improvements in the quality of financial reporting by local governments, government departments and governments since AASs 27, 29 and 31 were first issued.
- BC5 Where the Board identified that the material in AASs 27, 29 and 31 could be improved within time and resource constraints, improvements have been made. Much of the material in AASs 27, 29 and 31 has been retained substantively unamended. Improvements will be progressed in due course in line with the AASB's Public Sector Policy Paper *Australian Accounting Standards and Public Sector Entities*.
- BC6 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 of AASs 27, 29 and 31, listing each paragraph of each Standard 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. The Board's conclusions and rationale for the treatment of each paragraph in the context of the review were also provided in the

analysis. The Board's primary focus was on dealing with the requirements from the three Standards in such a way as to not leave a vacuum.

- BC7 Each paragraph from AASs 27, 29 and 31 was classified as being:
- (a) no longer needed or adequately dealt with in other Standards;
 - (b) more appropriately dealt with in other Standards; or
 - (c) not adequately and/or appropriately dealt with in other Standards and therefore should be retained or improved and incorporated into other Standards.
- The paragraph-by-paragraph analyses considered by the AASB in developing the Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31* that gave rise to this Standard are available on the AASB website. They support, but do not form part of, this Basis for Conclusions.
- BC8 In reviewing the paragraphs, the Board noted that some material in AASs 27, 29 and 31 would, under the current style of writing Standards, be located in a separate Basis for Conclusions. Given the short-term nature of the review of AASs 27, 29 and 31, the Board concluded that explanations of technical issues that both originated in and are being relocated from AASs 27, 29 and 31 should, when appropriate, be located in the body of the Standard to which they are relocated.
- BC9 The Board decided not to retain the illustrative general purpose financial reports provided in AASs 27, 29 and 31, because their purpose, which was to provide an educational tool in the initial stages of accrual reporting by local governments, government departments and governments is no longer needed.
- BC10 The remainder of this Basis for Conclusions focuses on issues specific to contributions.

Contributions

General approach

- BC11 The Board decided to broadly retain the material on contributions from AASs 27, 29 and 31 and locate it in separate sections within AASB 1004 because it was not adequately covered in existing Australian Accounting Standards.
- BC12 The Board concluded that, in the short term, minimal changes should be made to the content of the material. The Board considered that it is appropriate to review the requirements and guidance for contributions as part of a longer-term project as outlined in the AASB's Public Sector Policy Paper. A review by the Board of non-exchange income, which will incorporate a review of contributions, is in progress at the time of revision of this Standard.
- BC13 The Board considered two options for relocating the requirements on contributions into AASB 1004:
- (a) merging the AASs 27, 29 and 31 paragraphs into the then existing AASB 1004 requirements; or
 - (b) adding the AASs 27, 29 and 31 paragraphs into the existing AASB 1004 as separate sections.
- The paragraphs in AASs 27, 29 and 31 containing guidance about contributions were very detailed and contained a large amount of commentary whereas the then existing guidance in AASB 1004 was significantly less detailed. The Board concluded that merging the requirements in AASs 27, 29 and 31 with the AASB 1004 requirements would, in effect, require the redrafting of the entire Standard, which is beyond the scope of this project. The integration approach was also considered more likely to raise controversial revenue recognition issues for all not-for-profit entities that, as noted in paragraph BC12, the Board will deal with as a separate longer-term project applicable to a broader range of entities.
- BC14 The Board also considered whether the guidance from AASs 27, 29 and 31 should be merged into a single set of generic requirements or expressed separately for local governments, government departments or governments. The Board concluded that the three sets of guidance from AASs 27, 29 and 31 were sufficiently similar to be merged to form one set of requirements – noting that such an approach results in some changes for some entities. One area where this occurs is the disclosure of contributions, where government departments and governments are now required to make disclosures not previously required, because AAS 27 was more onerous than AASs 29 and 31.
- BC15 The Board decided to include specific references to the application of this Standard to General Government Sectors (GGs) to support/clarify the AASB 1049 *Financial Reporting of General Government Sectors by Governments* requirement for GGs to adopt other Australian Accounting Standards, including this Standard. As this Standard has many parts, applicable to different groups of entities, the Board considered it would aid users to explicitly refer to GGs in paragraph 1(d) and throughout this Standard.

- BC16 In addition, the Board decided to extend the application of the requirements relating to ‘contributions of services’ to apply beyond government departments to local governments, GGSs and whole of governments, for consistency across these types of entities.
- BC17 Because the guidance from AASs 27, 29 and 31 partly overlapped with the guidance in the superseded AASB 1004, the Board amended the requirements to reduce duplication.
- BC18 The Board considered whether the paragraphs of AAS 29 that address the accounting for parliamentary appropriations, which are only applicable to government departments, should be incorporated into this Standard as a separate section. The Board noted the view that the requirements are no longer needed given the nature of current arrangements between governments and government departments for parliamentary appropriations compared with past arrangements and government departments’ familiarity with accrual accounting. However, the Board concluded that the paragraphs should be retained, in keeping with Board’s short-term intention of retaining the guidance from AASs 27, 29 and 31 where there are no comparable requirements in existing Australian Accounting Standards and thereby avoid creating a vacuum.
- BC19 Paragraph 15.2.1 of AAS 31 dealt with the disclosure of policies adopted for recognising tax revenues. Given the nature of the commentary, the Board concluded that it would be most logical to locate the contents of this paragraph in paragraph 30 of this Standard within the area that relates to recognition of ‘contributions, other than contributions by owners, by local governments, government departments, GGSs or whole of governments’ and within the section ‘control over assets’ in a paragraph that discusses control over assets acquired from involuntary non-reciprocal transfers, such as rates, taxes and fines. In doing this, the Board decided to extend the requirements beyond whole of governments to local governments, government departments and GGSs.

Liabilities assumed by other entities

- BC20 The Board decided to substantially retain the guidance in AAS 29 relating to the treatment of liabilities assumed by other entities in the financial statements of a government department. The Board concluded that, although the superseded AASB 1004 specified requirements for liabilities that are forgiven, it did not explicitly deal with liabilities that are assumed by other entities.
- BC21 The Board considered whether to align the requirements in paragraphs 8.2, 8.2.1 and 8.2.3-8.2.5 of AAS 29 for derecognition of liabilities with the corresponding requirements in AASB 139 *Financial Instruments: Recognition and Measurement*. The Board noted that the AAS 29 requirements, which reflected a symmetrical accounting approach, may not be consistent with the criteria for derecognition of a liability in AASB 139, which does not necessarily result in symmetry and refers to liabilities arising from contracts. Given the relationship between an entity assuming a government department’s liability (such as the controlling government) and the government department, the Board concluded that the symmetrical accounting adopted in AAS 29 is appropriate for derecognition of liabilities.

Government department disclosures relating to revenue

- BC22 The Board decided that it would be most logical to incorporate the requirements from paragraphs 12.2(b)-(d) of AAS 29 relating to disclosure requirements for certain revenue items (that is, appropriations by class; liabilities that were assumed during the reporting period by the government or other entity; and the fair value of goods and services received free of charge, or for nominal consideration, and recognised during the reporting period) into this Standard. This is because they are disclosures of items of revenue that, for the purpose of the short-term review, are considered to be sufficiently related to the scope of the superseded AASB 1004.
- BC23 The Board decided to limit the requirements in paragraphs 12.2(b) and (c) of AAS 29 to government departments, in keeping with its approach of retaining AASs 27, 29 and 31 requirements in the short term. In keeping with the Board’s decision to extend the application of the section on ‘contribution of services’ to apply beyond government departments to local governments, GGSs and whole of governments (see paragraph BC16), the Board concluded that the disclosure requirements in paragraph 12.2(d) of AAS 29 relating to revenue disclosures about contributions of services should also be extended to apply to local governments, GGSs and whole of governments. Furthermore, the Board concluded that the paragraph in question should be amended to refer to recognised contributions of services to be consistent with the requirements under which not all contributions received would be required to be recognised.

Restructures of administrative arrangements

- BC24 The Board considered it timely to amend the requirements in paragraphs 7.4, 7.4.2 and 10.6-10.9.3 of AAS 29 for restructures of administrative arrangements as part of the short-term review of AAS 29 and in light of the existing definition of contributions by owners that is contained in this Standard. The Board decided to define restructures of administrative arrangements and to specify that they are in the nature of transactions with owners in their capacity as owners to be recognised on a net basis. In particular, the Board concluded that a transfer of net assets arising as a consequence of a restructure of administrative arrangements is faithfully represented as a distribution to owners by the transferor and a contribution by owners by the transferee. The Board also noted that this would result in greater consistency in accounting for restructures of administrative arrangements. The Board concluded that this approach is preferable to the superseded approach whereby transfers need to be designated as contributions by owners at the time of the transfer to be treated as such. The Board noted that this would result in a significant change in the current AAS 29 requirements as the possibility of treating a transfer as a revenue/expense item would no longer be available, and would give rise to amendments to Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* to make it consistent with this Standard. Consistent with the short-term nature of the review of AASs 27, 29 and 31, the Board intends making amendments to Interpretation 1038 to make it consistent with this Standard. In the longer term, the Board intends to undertake a fundamental review of Interpretation 1038.
- BC25 The Board concluded that the effect of the requirements should be expanded beyond government departments to include all government controlled not-for-profit public sector entities and for-profit government departments, noting that this would increase the consistency with the scope of Interpretation 1038 which applies to all wholly-owned public sector entities that prepare general purpose financial statements, not just government departments. This will assist in harmonising requirements and guidance in relation to contributions by owners. It is not intended that the amended requirements for restructures of administrative arrangements necessarily apply in analogous circumstances. For example, it is not intended that the amended requirements apply in the accounting for restructures of commonly-controlled private sector entities.
- BC26 Although assets and/or liabilities assumed by another entity as a consequence of a restructure of administrative arrangements were not explicitly dealt with in the superseded AASB 1004, the Board concluded that this Standard is an appropriate location for this material as it is the Standard that is best suited to dealing with contributions, including contributions by owners, to not-for-profit reporting entities and for-profit government departments.
- BC27 In addition, in accordance with its decision to issue AASB 2005-6 *Amendments to Australian Accounting Standards [AASB 3]*, the Board concluded that AASB 3 *Business Combinations* is not an appropriate Standard in which to locate specific requirements relating to restructures of administrative arrangements because business combinations involving entities or businesses under common control are now excluded from the scope of AASB 3. However, a cross-reference from AASB 3 to AASB 1004 is provided to assist in understanding the relationship between the two Standards.
- BC28 The Board also concluded that it is not necessary at this time to explicitly address the measurement basis to be adopted for transferred assets and liabilities due to a restructure of administrative arrangements. An asset acquired by a government controlled not-for-profit entity or a for-profit government department as a consequence of a restructure of administrative arrangements is considered to be a contribution by owners. Not specifying the measurement basis is consistent with Interpretation 1038, which also does not specify the measurement basis to be adopted with respect to contributions by owners or distributions to owners. In addition, AASB 3 does not address the measurement issue for a restructure of entities under common control. The Board also noted that measurement requirements in AASB 116 *Property, Plant and Equipment* (including paragraph Aus15.1) do not apply to assets transferred under a restructure of administrative arrangements because they are acquired by the transferee as part of a business. The Board acknowledges that, as the proposed amendments do not specify the measurement basis to be adopted, assets and liabilities transferred in the course of a restructure of administrative arrangements could be measured at fair value or book value.
- BC29 The Board noted that the scope of the requirements relating to restructures of administrative arrangements is limited to the transfer of a business (as defined in AASB 3). The Board does not intend the requirements to apply where, for example, an individual asset or a group of assets that are not a business are transferred, noting that transfers of an individual asset and a group of assets are scoped out by the definition of a business in AASB 3.

Compliance with parliamentary appropriations and other externally-imposed requirements by government departments

- BC30 The Board noted that issues relating to compliance with parliamentary appropriations and other externally-imposed requirements are important for government accountability. Accordingly, the Board concluded that the requirements in paragraphs 12.6 and 12.6.2-12.6.4 of AAS 29 for disclosure of compliance with parliamentary appropriations and other externally imposed requirements should be retained.
- BC31 The Board concluded that the requirements for the disclosure by government departments of compliance with parliamentary appropriations and other externally-imposed requirements are sufficiently related to the topic of contributions to be incorporated into this Standard.
- BC32 Consistent with the short-term nature of the project, the requirements are to be limited to government departments rather than applying them more broadly to not-for-profit public sector entities. In due course, the Board will consider extending the application of the requirements.
- BC33 The Board concluded that it is appropriate to not retain paragraph 12.6.1 of AAS 29, which explains the meaning of parliamentary appropriations, as it is no longer necessary.