V INCOME FRAMEWORK

Issued: 24 March 2009

1 INTRODUCTION

Application and Operative Date

This Accounting Policy Framework is re-issued on the 24 March 2009 and applies to the general purpose financial statements of each public authority for the reporting period ending on or after 30 June 2009. It replaces APF V issued in February 2006 which is hereby revoked.

Scope

The purpose of this Accounting Policy Framework is to address income identification, recognition and measurement, with a specific reference to contributions. To assist public authorities with accounting for contributions, such as grants, the income, expense, asset and liability aspects of contributions are considered.

It mandates that all public authorities measure contributed assets at fair value and provides accounting guidance for grants.

Background

In November 2005, the AASB released its proposed guidance on contributions (ED 144 *Proposed Australian Guidance to Accompany AASB 1004 Contributions)*, to further explain the concepts and requirements outlined in AASB 1004. The statement contained in the AASB's media release was that 'ED 144 does not propose any changes to the requirements of AASB 1004'.

In January 2006, the AASB decided not to finalise the guidance at this stage as changes will be required to AASB 1004 when the outcomes of the IASB and IPSASB projects on non-exchange revenue transactions are known.

The AASB has agreed to undertake a separate longer-term project to review the requirements and guidance for contributions, and for this project to be conducted jointly with the New Zealand FRSB. Over the longer term and as part of this separate project, the AASB will continue to monitor the IASB projects on liability and revenue recognition and consider their implications for treatment of revenue from non-exchange transactions.

This Accounting Policy Framework includes guidance material, and uses terminology contained in ED 144 to further explain the concepts and requirements outlined in AASB 1004. The Accounting Policy Framework has been issued to facilitate the consistent application of the income accounting requirements across government reporting entities.

Australian Accounting Standards

AASB 118 *Revenue* sets out the accounting treatment of revenue arising from certain types of transactions and events.

AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* prescribes the measurement, recognition and disclosure of government contributions for for-profit entities.

AASB 1004 *Contributions* prescribes the measurement, recognition and disclosure of contributions for not-for-profit entities; defines restructures of administrative arrangements; and specifies that restructures are in the nature of transactions with owners in their capacity as owners.

AASB *Framework for the Preparation and Presentation of Financial Statements* sets out the concepts that underlie the preparation and presentation of financial statements for users.

2 INCOME

APS 2.1 All income must be measured at fair value.

2.2 Income is defined as increases in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from owners. Income is defined to include both revenues and gains, where:

- revenues arise in the ordinary course of an entity's business activities eg the sales of goods and/or rendering of services, use of the entity's assets yielding interest etc; and

- gains may or may not arise in the ordinary course of business and are recognised on a net basis eg gains on the sale or disposal of non-current assets.

2.3 Income is recognised when an increase in future economic benefits relates to an increase in an asset or a decrease in a liability that can be measured reliably.

APS 2.4 Revenues and gains must be reported separately in the Statement of Comprehensive Income. Gains must be disclosed on a net basis (ie reported net of related expenses).

3 CONTRIBUTIONS

What are contributions?

3.1 Contributions are non-reciprocal transfers and include items such as appropriation, grants, donations, taxes, rates and other asset transfers other than equity contributions by the SA Government as owner.

3.2 Contributions can be cash or non-monetary eg sponsorships, donated artworks etc.

What are stipulations?

3.3 Contributions may have stipulations that are conditional or unconditional.

3.4 Stipulations may be placed on the manner, purpose or timing of the use of the contributions. Examples of stipulations include:

- projects and activities required to be completed within specified timeframes and carried out in accordance with approved plans and/or proposals;
- expenditure required to be made in accordance with the approved budget and any unspent contributions returned to the contributor/grantor;
- progress reports and/or financial information to be provided when requested; and
- assistance from the contributor is required to be acknowledged in any published material.

3.5 Contributions with conditional stipulations have enforceable stipulations that need to be satisfied before the contribution will be paid, or where the contribution is paid in advance, failure of the receiving entity to comply with or satisfy these enforceable stipulations will trigger repayment. Refer to paragraph 4.8 for further information and examples of contributions with conditional stipulations. In the absence of enforceable stipulations that trigger repayment, the contribution is unconditional.

3.6 In assessing whether a stipulation is conditional it is important that attention be given to the underlying substance and economic reality of the stipulation. For example, if past experience indicates that the contributor has not enforced the conditional stipulations, that are attached to the contribution, then the contribution has the form but not the substance of a contribution with conditional stipulations.

3.7 The receipt of a contribution, with conditional or unconditional stipulations, will impose a fiduciary responsibility on the management of the entity to use the contribution efficiently and effectively in pursuing the objectives of the entity. This fiduciary responsibility is imposed on the use of all of the entity's assets and does not, of itself, constitute a legal, equitable or constructive obligation.

3.8 A contribution with unconditional stipulations does not give rise to a liability in the accounts of the recipient entity, as a present obligation (eg with respect to the use of the funds) on the entity has not been created.

4. ACCOUNTING FOR CONTRIBUTIONS BY NOT-FOR-PROFIT ENTITIES

APS 4.1 A contribution, other than a contribution by owners in their capacity as owners, must be recognised as an asset and income when the entity obtains control of the contribution or obtains the right to receive the contribution and the income recognition criteria are met (ie the amount can be reliably measured and the flow of resources is probable).

APS 4.2 This Accounting Policy Framework outlines the accounting treatment for contributions received. For contributions payable, the contribution will be recognised as a liability and expense when the government reporting entity has a present obligation to pay the contribution and the expense recognition criteria are met.

APS 4.3 Other than those government reporting entities specifically exempted via APS 3.4 in APF II, all government reporting entities (not just departments) will apply the following paragraphs of AASB 1004 *Contributions*:

a. paragraphs 39 to 43 “Liabilities assumed by other entities”; and

b. paragraphs 44 to 47 “Contributions of Services”.

4.4 To ensure contributions are accounted for consistently within the South Australian Government, agreements for contributions between government reporting entities must clearly articulate whether stipulations are conditional or unconditional, and the paying entity and receiving entity should ensure the recognition of contributions is consistent.

4.5 Implementation of the following process may assist government reporting entities with ensuring contributions are accounted for consistently:

- the receiving entity reconciling the extent of compliance with conditional stipulations to determine any amount repayable under the agreement;
- the receiving entity advising the paying entity that an amount is payable in accordance with the agreement; and
- the paying entity to confirm whether or not repayment of the amount is required.

4.6 Whether the government reporting entity has obtained control or the right to receive a contribution is a matter of fact that will need to be determined in each circumstance. Generally, for

- Contributions with unconditional stipulations this will be when the agreement becomes enforceable ie the earlier of when the receiving entity has formally been advised that the contribution (eg grant application) has been approved; agreement/contract is executed; and/or the contribution is received.

- Contributions with conditional stipulations this will be when the enforceable stipulations specified in the agreement occur or are satisfied, that is income would be recognised for contributions received or receivable under the agreement.

Accounting for contributions with unconditional stipulations

4.7 The following table demonstrates the accounting treatment for grants with unconditional stipulations by not-for-profit entities – whether paid in arrears or advance for the current year or future years.

Event	Action	Accounting Implications
Commitment	A decision has been made in favour of an applicant and/or an offer has been made to an applicant	Payer - Disclose commitment in the notes to the accounts.
Enforceable agreement	Contract or agreement – both parties sign a legal contract	Receiver - records income and a receivable. Payer – records an expense and a payable
Receipt/Payment	Receive/Pay per agreement	Receiver – receipts cash and reduces receivable. Payer – pays cash and reduces payable

If the receipt/payment occurs before the grant agreement becomes enforceable the income is recognised on receipt of the grant.

Accounting for contributions with conditional stipulations

4.8 Contributions with conditional stipulations have enforceable stipulations that need to be satisfied before the contribution will be paid, or where the contribution is paid in advance, failure of the receiving entity (ie grantee) to comply with or satisfy these enforceable stipulations will trigger repayment. Conditional stipulations may include:

- The use of the contribution to provide goods and services to third parties;
- The transfer of the contribution to a third party; and
- The obtaining of matching funds from a third party.

4.9 Generally, contributions with conditional stipulations give rise to an asset and income when the enforceable stipulations specified in the agreement are satisfied. Prior to this point in time, an enforceable right to use the contributed asset in the pursuit of the entity’s objectives does not exist.

4.10 Where a contribution contains a conditional stipulation for the receiving entity (ie grantee) to provide goods and services, the agreement may be in economic substance a 'transaction for the provision of goods and services' ie a normal trading transaction of the entity, (eg where a payment is made to a research organisation to undertake research and provide the results of that research to the grantor). In such circumstances, the requirements in AASB 118 *Revenue* would apply.

4.11 Terms of an agreement to provide goods and services may include:

- the specific goods and services to be provided, quantities to be provided and/or entities to receive goods and services;
- an acquittal process to ensure the specified goods and services have been provided; and/or method for determining the stage of completion of goods and services; and
- a right to refuse payment or demand repayment when goods and services provided are not in accordance with arrangements specified.

APS 4.12 When a contribution with conditional stipulations is transferred in arrears of the conditional stipulations being met, the contribution must be recognised as an asset and income when the stipulations are met.

The following table demonstrates the accounting treatment for grants with conditional stipulations by not-for-profit entities – paid in arrears for the current year or multiple years.

Event	Action	Accounting Implications
Commitment	A decision has been made in favour of an applicant and/or an offer has been made to an applicant	Payer - disclose commitment in the note to the accounts.
Enforceable agreement with enforceable stipulations	Contract or agreement – both parties sign a legal contract	None – remains disclosed as a commitment in the notes to the accounts.
Confirm conditional stipulations are met and make payment/ receipt funds.	Receive/Pay as conditional stipulations are met as specified in the agreement	Receiver – records income and receipts cash. Payer – records expense and pays cash.

4.13 When a contribution with conditional stipulations is transferred in advance of the conditional stipulations being met, the asset must be recognised when the contribution is received, but there may be a liability associated with a contribution paid in advance, depending on:

- the nature of the asset transferred and the nature of the conditional stipulations attached to the contribution; and
- whether the entity has a present obligation to sacrifice economic benefits as a result of the payment eg where the contribution does not give the grantor a right to receive benefits directly from the grantee, the grantee does not have a present obligation to make future sacrifice of economic benefits to the grantor.

When an entity determines that a liability exists, the liability is only recognised if the outflow of future economic benefits is probable.

The following table demonstrates the accounting treatment for grants with conditional stipulations by not-for-profit entities – paid in advance for the current year or multiple years (assuming a liability is recognised because there is a clear statement of the specific action that is to be taken with the grant asset).

Event	**Action**	**Accounting Implications**
Commitment	A decision has been made in favour of an applicant and/or an offer has been made to an applicant	Payer - disclose commitment in the notes to the accounts.
Enforceable agreement with enforceable stipulations	Contract or agreement – both parties sign a legal contract	None – remains disclosed as a commitment in the notes to the accounts.
Receipt/ Payment	Receive/Pay contribution	Receiver – receipts cash and record income received in advance (the associated liability). Payer – pays cash and record the prepayment (the associated asset).
Confirm conditional stipulations are met	Conditional stipulations are met as specified in the agreement	Receiver – records income and reduces the liability Payer – records an expense and reduces the prepayment

5 ACCOUNTING FOR CONTRIBUTIONS BY FOR-PROFIT ENTITIES

5.1 A contribution from government (Commonwealth, State and Local) is recognised as an asset and income when there is reasonable assurance that the for-profit entity will comply with the conditional stipulations attached to the government grants and the government grants will be received. Government grants are defined in AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

5.2 Whether the 'reasonable assurance' test has been satisfied will need to be determined in each circumstance.

5.3 AASB 120 requires a for-profit entity to recognise government grants in profit or loss on a systematic basis over the periods necessary to match them with the related costs. For example:

- grants relating to depreciable assets are usually recognised as income over the same period and in the same proportions in which depreciation on those assets is charged; and
- compensation for expenses or losses already incurred or for the purpose of giving immediate financial support are recognised as income in the period it becomes receivable.

APS 5.4 Contributions received from non-government entities must be recognised as an asset and income when the entity obtains control of the contribution or the right to receive the contribution and the income recognition criteria are met (ie the amount can be reliably measured and the flow of resources is probable).

5.5 Whether the entity has obtained control or the right to receive a contribution is a matter of fact that will need to be determined in each circumstance.

5.6 This Accounting Policy Framework outlines the accounting treatment for contributions received. When a for-profit entity pays a contributions to a non-government entity or a government not-for-profit entity, the contribution will be recognised as a liability and expense when the entity has a present obligation to pay the contribution and the expense recognition criteria are met (ie the amount can be reliably measured and the flow of resources is probable).