Financial Reporting Requirements for Queensland Government Agencies

For reporting periods beginning on or after 1 July 2018
## LIST OF FINANCIAL REPORTING REQUIREMENTS
### FOR QUEENSLAND GOVERNMENT AGENCIES

<table>
<thead>
<tr>
<th>PART 1</th>
<th>INTRODUCTION AND PRESCRIBED ACCOUNTING STANDARDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRR 1A</td>
<td>Introduction and Prescribed Accounting Standards</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PART 2</th>
<th>BASIS OF PREPARATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRR 2A</td>
<td>Basis of Financial Statement Preparation</td>
</tr>
<tr>
<td>FRR 2B</td>
<td>Materiality</td>
</tr>
<tr>
<td>FRR 2C</td>
<td>Changes in Accounting Policies and Estimates</td>
</tr>
<tr>
<td>FRR 2D</td>
<td>Form and Content of Financial Statements</td>
</tr>
<tr>
<td>FRR 2E</td>
<td>Controlled and Administered Items, Trust Transactions and Agency Arrangements</td>
</tr>
<tr>
<td>FRR 2F</td>
<td>Machinery-of-Government Changes</td>
</tr>
<tr>
<td>FRR 2G</td>
<td>Consolidated Financial Statements and Controlled Entities</td>
</tr>
<tr>
<td>FRR 2H</td>
<td>Interests in Associates and Joint Arrangements</td>
</tr>
<tr>
<td>FRR 2I</td>
<td>Management Certificate</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PART 3</th>
<th>FINANCIAL PERFORMANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRR 3A</td>
<td>Statement of Comprehensive Income</td>
</tr>
<tr>
<td>FRR 3B</td>
<td>Income</td>
</tr>
<tr>
<td>FRR 3C</td>
<td>Employee Benefit Expenses and Key Management Personnel Remuneration</td>
</tr>
<tr>
<td>FRR 3D</td>
<td>Expenses</td>
</tr>
<tr>
<td>FRR 3E</td>
<td>Distinction between Grants and Procurement Revenue and Expense</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PART 4</th>
<th>FINANCIAL POSITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRR 4A</td>
<td>Statement of Financial Position</td>
</tr>
<tr>
<td>FRR 4B</td>
<td>Assets</td>
</tr>
<tr>
<td>FRR 4C</td>
<td>Employee Benefit Liabilities</td>
</tr>
<tr>
<td>FRR 4D</td>
<td>Liabilities</td>
</tr>
<tr>
<td>FRR 4E</td>
<td>Financial Instruments</td>
</tr>
<tr>
<td>FRR 4F</td>
<td>Equity, Contributions by Owners and Distributions to Owners</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PART 5</th>
<th>OTHER DISCLOSURE REQUIREMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRR 5A</td>
<td>Statement of Cash Flows</td>
</tr>
<tr>
<td>FRR 5B</td>
<td>Related Party Transactions</td>
</tr>
<tr>
<td>FRR 5C</td>
<td>Budgetary Reporting Disclosures</td>
</tr>
<tr>
<td>FRR 5D</td>
<td>Service Concession Arrangements</td>
</tr>
<tr>
<td>FRR 5E</td>
<td>Commitments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PART 6</th>
<th>ILLUSTRATIVE MODEL FINANCIAL STATEMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRR 6A</td>
<td>Sunshine Department Model Financial Statements (Tier 1)</td>
</tr>
<tr>
<td>FRR 6B</td>
<td>Future Bay Regional Health Foundation (Tier 2)</td>
</tr>
</tbody>
</table>
FRR 1A Introduction and Prescribed Requirements

Contents

1.1 Introduction .................................................................................................................................................... 5
1.2 Application ..................................................................................................................................................... 6
1.2.1 Legislative Basis of Requirements ................................................................................................................ 6
1.2.2 The Financial Reporting Framework ............................................................................................................. 6
1.3 Australian Accounting Standards Board Pronouncements ........................................................................... 8
1.3.1 Treasury requirements re Australian Accounting Standards to apply to 2018-19 Reporting (based on standards issued as 31 May 2019) ............................................................................................................... 8
1.3.2 Treasury requirements re Australian interpretations to apply to 2018-19 Reporting (based on interpretations issued as at 31 May 2019) ........................................................................................................... 10
1.3.3 Treasury requirements re New and Amended Accounting Standards and Interpretations to apply to Reporting Periods beginning on or after 1 January 2019 (based on standards and interpretations issued as at 31 May 2019) ............................................................................................................ 11
1.4 Significant Impacts on 2019-20 and Later Reporting Periods ..................................................................... 12
1.4.1 AASB 16 Leases ......................................................................................................................................... 12
1.4.2 AASB 1058 Income of Not-for-Profit Entities .............................................................................................. 21
1.4.3 AASB 15 Revenue from Contracts with Customers .................................................................................... 28
1.4.4 AASB 1059 Service Concession Arrangements: Grantors ........................................................................ 40
FRR 1A  Introduction and Prescribed Accounting Standards

1.1  Introduction

These Financial Reporting Requirements for Queensland Government Agencies (FRRs), including the Sunshine Department Model Financial Statements and Future Bay Regional Health Foundation Model Financial Statements, have been issued to assist agencies in the preparation of their annual financial statements and to ensure consistency in presentation across agencies. The FRRs are not intended to duplicate or replace the Australian Accounting Standards Board (AASB) pronouncements, nor requirements of the Financial Accountability Act 2009 and the Financial and Performance Management Standard 2009. Therefore, it is imperative that agencies comply with all relevant requirements in those documents when preparing their annual financial statements.

In instances where additional disclosures or modification of the model financial statements are imposed through an alternative authority, or would enhance transparency, accountability and user relevance, agency statements should be varied to the extent necessary but so as to still comply with the policies identified as mandatory throughout Parts 2-5 of the FRRs. If an agency believes that the requirements inhibit transparency and accountability or represent a departure from Australian Accounting Standards, the matter should be referred to Queensland Treasury's Financial Management Help Desk at fmhelpdesk@treasury.qld.gov.au.

These FRRs consist of six distinct parts including this introductory part (Part 1).

Part 2 – Basis of Preparation – containing mandatory policies and non-mandatory guidance on fundamental presentation matters regarding financial statements as a whole.


Part 5 – Other Disclosure Requirements – mandatory policies and non-mandatory guidance on topics beyond the scope of Parts 2-4.

Part 6A - Provides an example set of financial statements, the Sunshine Department Model Financial Statements, for those agencies that are consolidated into the whole-of-Government financial statements. These model statements comply with the FRRs and AASB pronouncements. To assist agencies in the preparation of their annual financial statements, a reference is located in the left-hand margin of the Sunshine Department Model Financial Statements to the relevant FRRs, AASB standard or Australian Interpretation as the authority for the accounting or reporting treatment adopted in the model statements.

Part 6B - Provides an example set of financial statements, the Future Bay Regional Health Foundation Model Financial Statements, for statutory bodies that elect to adopt the AASB's reduced disclosure requirements (Tier 2), in accordance with FRR 2A.5. These model statements comply with the FRRs and Australian Accounting Standards – Reduced Disclosure Requirements. Consistent with the Sunshine Department Model Financial Statements, a reference is located in the left-hand margin of the Future Bay Regional Health Foundation Model Financial Statements to the relevant FRRs, AASB standard or Australian Interpretation, as the authority for the accounting or reporting treatment adopted in the model statements.
1.2 Application

These FRRs apply to all departments. To the extent relevant, statutory bodies within the Queensland public sector must have regard to the policies identified as mandatory throughout Parts 2-5 i.e. statutory bodies must comply with the contents of the FRRs when they apply to statutory body circumstances. The FRRs do not apply to entities subject to the reporting requirements of the Corporations Act 2001.

For the purpose of the FRRs, all applicable reporting entities are referred to as ‘agencies’.

1.2.1 Legislative Basis of Requirements

The Financial Accountability Act 2009 (FA Act) and its subordinate legislation, the Financial and Performance Management Standard 2009 (FPMS), provide the legislative basis for the requirement for departments and statutory bodies to prepare general purpose financial statements and prescribe the requirements under which these statements are prepared.

1.2.2 The Financial Reporting Framework

The FRR disclosure requirements and model financial statements are based on AASB pronouncements including:

- the Framework for the Preparation and Presentation of Financial Statements ("The Framework" or "Conceptual Framework");
- Statements of accounting concepts (SACs);
- Australian Accounting Standards; and
- Interpretations.

The Sunshine Department Model Financial Statements (Tier 1) and Future Bay Regional Health Foundation Model Financial Statements (Tier 2) are example ‘general purpose financial statements’. General purpose financial statements are intended to meet the needs of external users who rely on the information contained in the statements to assess the agency’s financial performance, financial position and cash flows. The model statements are based on three key principles:

- **Accountability** - The accountable officer/chief executive officer/chairperson of each agency is responsible for the efficient and effective use of the agency’s resources. An agency may also undertake trustee duties or duties as an agent for other entities. The financial statements of the agency are intended to fairly and truthfully represent such activities for the financial year.

- **Compliance** - Financial statements must comply with relevant legislation, applicable AASBs and other prescribed requirements, and the minimum reporting requirements (included in Parts 2-5) to the extent these apply to departments and statutory bodies.

- **Comparability** - Financial statements must provide information that is comparable between the current and previous financial years and on a cross-agency basis.
The Framework

The Framework sets out the:

- objective of general purpose financial reporting; and
- qualitative characteristics of useful financial information.

The various Australian Accounting Standards expand on the conceptual framework set out in the Framework and SAC 1 and addresses key issues on accounting and reporting that agencies must comply with.

SAC 1 Definition of the Reporting Entity

SAC 1 describes a reporting entity as an entity for which it is reasonable to expect the existence of users dependent on general purpose financial statements for the information which will be useful to them for making and evaluating decisions about the allocation of scarce resources.

SAC 1 also states that if an entity qualifies as a reporting entity, it should prepare general purpose financial statements in accordance with the SACs and AASBs.

Australian Accounting Standards

The AASB implemented the Financial Reporting Council's (FRC) policy of adopting the standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB continues to issue sector-neutral standards, that is, like transactions and events should be accounted for and reported in the same manner by all entities, regardless of their for-profit (FP) or not-for-profit (NFP) status.

Some accounting standards contain Australian-specific paragraphs, indicated at the start of the paragraph as ‘Aus’. These ‘Aus’ paragraphs provide additional guidance for NFP entities whilst others contain alternative treatment to those in the corresponding IASB standard. If an entity adopts an ‘Aus’ accounting treatment, the entity will comply with the Australian Accounting Standards, in accordance with paragraph 7 of AASB 1054 Australian Additional Disclosures, but depart from the corresponding IASB standard. As such, the entity will not be able to make an explicit and unreserved statement of compliance with IFRS. A qualified statement of compliance with IFRS is not appropriate.

AASB Interpretations

The AASB has direct responsibility for developing and approving all Interpretations, including the formation of topic-specific advisory panels with the purpose of making recommendations for consideration by the AASB.

All Australian Interpretations have equal authoritative status and must be applied where relevant.
1.3 Australian Accounting Standards Board Pronouncements

This section clarifies which Australian Accounting Standards and Interpretations are applicable to the current reporting period, and which new and amended standards and interpretations have future application dates. Where new or amended accounting standards or interpretations contain any provisions likely to require early consideration and preparation/planning by most agencies, early advice of such amendments is also set out.

Agencies must comply with the latest prescribed accounting standards issued by the Australian Accounting Standards Board (AASB). ‘Prescribed accounting standards’ is defined in s.59(6) of the Financial Accountability Act 2009 to include the following documents published by the AASB: Australian Accounting Standards; Statement of Accounting Concepts; Interpretations; and the Framework for the Preparation and Presentation of Financial Statements. This section lists those accounting standards and interpretations that must be complied with by agencies.

Note that only limited detail has been provided regarding significant accounting changes. Each agency is expected to review all new/amended accounting standards and interpretations for the full ambit of changes and the consequences for their agency’s circumstances.

1.3.1 Treasury requirements re Australian Accounting Standards to apply to 2018-19 Reporting (based on standards issued as 31 May 2019)

Refer to the AASB website (http://www.aasb.gov.au/Pronouncements/Search-by-reporting-period.aspx) for clarification of the version of these standards applicable to this financial year.

<table>
<thead>
<tr>
<th>No.</th>
<th>Standard Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>---</td>
<td>Framework for the Preparation and Presentation of Financial Statements</td>
</tr>
<tr>
<td>AASB 1</td>
<td>First-time Adoption of Australian Accounting Standards</td>
</tr>
<tr>
<td>AASB 2</td>
<td>Share-based Payment *</td>
</tr>
<tr>
<td>AASB 3</td>
<td>Business Combinations</td>
</tr>
<tr>
<td>AASB 4</td>
<td>Insurance Contracts</td>
</tr>
<tr>
<td>AASB 5</td>
<td>Non-current Assets Held for Sale and Discontinued Operations</td>
</tr>
<tr>
<td>AASB 6</td>
<td>Exploration for and Evaluation of Mineral Resources *</td>
</tr>
<tr>
<td>AASB 7</td>
<td>Financial Instruments: Disclosures</td>
</tr>
<tr>
<td>AASB 8</td>
<td>Operating Segments *</td>
</tr>
<tr>
<td>AASB 9</td>
<td>Financial Instruments</td>
</tr>
<tr>
<td>AASB 10</td>
<td>Consolidated Financial Statements</td>
</tr>
<tr>
<td>AASB 11</td>
<td>Joint Arrangements</td>
</tr>
<tr>
<td>AASB 12</td>
<td>Disclosure of Interests in Other Entities</td>
</tr>
<tr>
<td>AASB 13</td>
<td>Fair Value Measurement</td>
</tr>
<tr>
<td>AASB 14</td>
<td>Regulatory Deferral Accounts *</td>
</tr>
<tr>
<td>No.</td>
<td>Standard Title</td>
</tr>
<tr>
<td>--------</td>
<td>------------------------------------------------------------------</td>
</tr>
<tr>
<td>AASB 101</td>
<td>Presentation of Financial Statements</td>
</tr>
<tr>
<td>AASB 102</td>
<td>Inventories</td>
</tr>
<tr>
<td>AASB 107</td>
<td>Statement of Cash Flows</td>
</tr>
<tr>
<td>AASB 108</td>
<td>Accounting Policies, Changes in Accounting Estimates and Errors</td>
</tr>
<tr>
<td>AASB 110</td>
<td>Events after the Reporting Period</td>
</tr>
<tr>
<td>AASB 111</td>
<td>Construction Contracts</td>
</tr>
<tr>
<td>AASB 112</td>
<td>Income Taxes</td>
</tr>
<tr>
<td>AASB 116</td>
<td>Property, Plant and Equipment</td>
</tr>
<tr>
<td>AASB 117</td>
<td>Leases</td>
</tr>
<tr>
<td>AASB 118</td>
<td>Revenue</td>
</tr>
<tr>
<td>AASB 119</td>
<td>Employee Benefits</td>
</tr>
<tr>
<td>AASB 120</td>
<td>Accounting for Government Grants and Disclosure of Government Assistance</td>
</tr>
<tr>
<td>AASB 121</td>
<td>The Effects of Changes in Foreign Exchange Rates</td>
</tr>
<tr>
<td>AASB 123</td>
<td>Borrowing Costs</td>
</tr>
<tr>
<td>AASB 124</td>
<td>Related Party Disclosures</td>
</tr>
<tr>
<td>AASB 127</td>
<td>Separate Financial Statements</td>
</tr>
<tr>
<td>AASB 128</td>
<td>Investments in Associates and Joint Ventures</td>
</tr>
<tr>
<td>AASB 129</td>
<td>Financial Reporting in Hyperinflationary Economies *</td>
</tr>
<tr>
<td>AASB 132</td>
<td>Financial Instruments: Presentation</td>
</tr>
<tr>
<td>AASB 133</td>
<td>Earnings per Share*</td>
</tr>
<tr>
<td>AASB 134</td>
<td>Interim Financial Reporting *</td>
</tr>
<tr>
<td>AASB 136</td>
<td>Impairment of Assets</td>
</tr>
<tr>
<td>AASB 137</td>
<td>Provisions, Contingent Liabilities and Contingent Assets</td>
</tr>
<tr>
<td>AASB 138</td>
<td>Intangible Assets</td>
</tr>
<tr>
<td>AASB 139</td>
<td>Financial Instruments: Recognition and Measurement</td>
</tr>
<tr>
<td>AASB 140</td>
<td>Investment Property</td>
</tr>
<tr>
<td>AASB 141</td>
<td>Agriculture</td>
</tr>
<tr>
<td>AASB 1004</td>
<td>Contributions</td>
</tr>
<tr>
<td>AASB 1023</td>
<td>General Insurance Contracts</td>
</tr>
<tr>
<td>AASB 1038</td>
<td>Life Insurance Contracts</td>
</tr>
<tr>
<td>AASB 1039</td>
<td>Concise Financial Reports *</td>
</tr>
<tr>
<td>AASB 1048</td>
<td>Interpretation of Standards</td>
</tr>
<tr>
<td>AASB 1049</td>
<td>Whole of Government and General Government Sector Financial Reporting *</td>
</tr>
<tr>
<td>AASB 1050</td>
<td>Administered Items</td>
</tr>
<tr>
<td>AASB 1051</td>
<td>Land Under Roads</td>
</tr>
<tr>
<td>AASB 1052</td>
<td>Disaggregated Disclosures</td>
</tr>
<tr>
<td>AASB 1053</td>
<td>Application of Tiers of Australian Accounting Standards</td>
</tr>
<tr>
<td>AASB 1054</td>
<td>Australian Additional Disclosures</td>
</tr>
<tr>
<td>AASB 1055</td>
<td>Budgetary Reporting</td>
</tr>
<tr>
<td>AASB 1056</td>
<td>Superannuation Entities</td>
</tr>
</tbody>
</table>
1.3.2 Treasury requirements re Australian Interpretations to apply to 2018-19 Reporting (based on interpretations issued as at 31 May 2019)

Refer to the AASB website (http://www.aasb.gov.au/Pronouncements/Search-by-reporting-period.aspx) for clarification of the version of these interpretations applicable to this financial year.

<table>
<thead>
<tr>
<th>No.</th>
<th>Interpretation Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Changes in Existing Decommissioning, Restoration and Similar Liabilities</td>
</tr>
<tr>
<td>2</td>
<td>Members’ Shares in Co-operative Entities and Similar Instruments *</td>
</tr>
<tr>
<td>4</td>
<td>Determining whether an Arrangement contains a Lease</td>
</tr>
<tr>
<td>5</td>
<td>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</td>
</tr>
<tr>
<td>6</td>
<td>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment *</td>
</tr>
<tr>
<td>7</td>
<td>Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies *</td>
</tr>
<tr>
<td>10</td>
<td>Interim Financial Reporting and Impairment *</td>
</tr>
<tr>
<td>12</td>
<td>Service Concession Arrangements</td>
</tr>
<tr>
<td>13</td>
<td>Customer Loyalty Programmes *</td>
</tr>
<tr>
<td>14</td>
<td>AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</td>
</tr>
<tr>
<td>15</td>
<td>Agreements for the Construction of Real Estate</td>
</tr>
<tr>
<td>16</td>
<td>Hedges of a Net Investment in a Foreign Operation</td>
</tr>
<tr>
<td>17</td>
<td>Distributions of Non-cash Assets to Owners</td>
</tr>
<tr>
<td>18</td>
<td>Transfers of Assets from Customers</td>
</tr>
<tr>
<td>19</td>
<td>Extinguishing Financial Liabilities with Equity Instruments *</td>
</tr>
<tr>
<td>20</td>
<td>Stripping Costs in the Production Phase of a Surface Mine *</td>
</tr>
<tr>
<td>21</td>
<td>Levies</td>
</tr>
<tr>
<td>22</td>
<td>Foreign Currency Transactions and Advance Consideration</td>
</tr>
<tr>
<td>107</td>
<td>Introduction of the Euro</td>
</tr>
</tbody>
</table>

* Not applicable/relevant to departments or statutory bodies
<table>
<thead>
<tr>
<th>No.</th>
<th>Interpretation Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interpretation 110</td>
<td>Government Assistance – No Specific Relation to Operating Activities</td>
</tr>
<tr>
<td>Interpretation 115</td>
<td>Operating Leases – Incentives</td>
</tr>
<tr>
<td>Interpretation 125</td>
<td>Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</td>
</tr>
<tr>
<td>Interpretation 127</td>
<td>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</td>
</tr>
<tr>
<td>Interpretation 129</td>
<td>Service Concession Arrangements: Disclosures</td>
</tr>
<tr>
<td>Interpretation 131</td>
<td>Revenue – Barter Transactions Involving Advertising Services</td>
</tr>
<tr>
<td>Interpretation 132</td>
<td>Intangible Assets – Web Site Costs</td>
</tr>
<tr>
<td>Interpretation 1003</td>
<td>Australian Petroleum Resource Rent Tax</td>
</tr>
<tr>
<td>Interpretation 1019</td>
<td>The Superannuation Contributions Surcharge</td>
</tr>
<tr>
<td>Interpretation 1030</td>
<td>Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods</td>
</tr>
<tr>
<td>Interpretation 1031</td>
<td>Accounting for the Goods and Services Tax (GST)</td>
</tr>
<tr>
<td>Interpretation 1038</td>
<td>Contributions by Owners Made to Wholly-Owned Public Sector Entities</td>
</tr>
<tr>
<td>Interpretation 1042</td>
<td>Subscriber Acquisition Costs in the Telecommunications Industry *</td>
</tr>
<tr>
<td>Interpretation 1047</td>
<td>Professional Indemnity Claims Liabilities in Medical Defence Organisations *</td>
</tr>
<tr>
<td>Interpretation 1052</td>
<td>Tax Consolidation Accounting</td>
</tr>
<tr>
<td>Interpretation 1055</td>
<td>Accounting for Road Earthworks</td>
</tr>
</tbody>
</table>

* Not applicable/relevant to departments or statutory bodies

1.3.3 Treasury requirements re New and Amended Accounting Standards and Interpretations to apply to Reporting Periods beginning on or after 1 January 2019 (based on standards and interpretations issued as at 31 May 2019)

<table>
<thead>
<tr>
<th>No.</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>AASB 15</td>
<td>Revenue from Contracts with Customers *</td>
</tr>
<tr>
<td>AASB 16</td>
<td>Leases</td>
</tr>
<tr>
<td>AASB 17</td>
<td>Insurance Contracts</td>
</tr>
<tr>
<td>AASB 1058</td>
<td>Income of Not-for-Profit Entities</td>
</tr>
<tr>
<td>AASB 1059</td>
<td>Service Concession Arrangements: Grantors</td>
</tr>
<tr>
<td>AASB 2014-5</td>
<td>Amendments to Australian Accounting Standards arising from AASB 15 * **</td>
</tr>
<tr>
<td>AASB 2014-10</td>
<td>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture **</td>
</tr>
<tr>
<td>AASB 2016-8</td>
<td>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities</td>
</tr>
<tr>
<td>AASB 2017-1</td>
<td>Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-16 Cycle and Other Amendments **</td>
</tr>
<tr>
<td>AASB 2017-4</td>
<td>Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments</td>
</tr>
</tbody>
</table>
1.4 Significant Impacts on 2019-20 and Later Reporting Periods

1.4.1 AASB 16 Leases

AASB 16 Leases is effective for reporting periods beginning on or after 1 January 2019 and replaces AASB 117 Leases, Interpretation 4 Determining whether an Arrangement contains a Lease, Interpretation 115 Operating Leases – Incentives and Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

AASB 16 applies to all leases (see ‘Identifying a lease’ section below), except for those arrangements listed in paragraph 3. In addition, Treasury’s policy is that agencies shall not apply AASB 16 to leases of intangible assets.

1.4.1.1 Transitional arrangements

The date of initial application of AASB 16 is 1 July 2019 for agencies with a 30 June year end.

Treasury INTENDS TO MANDATE the practical expedient in paragraph C3 of AASB 16 that allows agencies to not have to re-assess whether existing contracts contain a lease. This means that contracts that were assessed as leases under AASB 117 and Interpretation 4 will be accounted for as leases under AASB 16 on transition, and contracts that were assessed as not being leases under AASB 117 will continue to not be accounted for as leases. The new criteria in AASB 16 for identifying a lease will be applied for all new leases and lease modifications from the date of initial application.
Lessees

Treasury INTENDS TO MANDATE the modified retrospective approach in paragraph C5(b). Under this transition approach, agencies will not need to restate comparative figures in their 2019-20 financial statements. For leases that were operating leases under AASB 117, agencies will measure their new lease liability at 1 July 2019 by discounting the remaining lease payments at the agency’s incremental borrowing rate.

AASB 16 allows lessees to choose, on a lease-by-lease basis, between measuring the right-of-use asset either as if the standard had always applied (paragraph C8(b)(i)) or at an amount equal to the lease liability (paragraph C8(b)(ii)). The difference between the two options are:

- C8(b)(i) will result in a lower initial asset value, meaning a reduction in net assets at the date of transition but lower depreciation expense in future years. This option is more complicated, especially for leases that have had variable rent increases.
- C8(b)(ii) will result in a higher initial asset value, meaning minimal impact on net assets at the date of transition but higher depreciation expense in future years.

Treasury recommends that agencies use option C8(b)(i) where the historical information is available, as this will reduce the operating result impact in future years. Option C8(b)(ii) can be used where the necessary information is not available, for example for leases originally entered into by another agency and transferred to the current lessee via a machinery of government change.

Transitional Treatment - lease incentive balances

Lease incentive liabilities - On transition, Treasury’s position is that existing lease incentives liabilities should be derecognised, against either opening retained earnings under option C8(b)(i), or the right-of-use asset under option C8(b)(ii).

For agencies applying paragraph C8(b)(ii), Treasury has been questioned whether adjusting the lease incentive liability against the right-of-use asset is appropriate on transition to AASB 16, rather than simply derecognising against opening retained earnings. Treasury has no objection to either approach being applied where paragraph C8(b)(ii) is applied. Treasury considers derecognising the incentive liability against the right-of-use asset under C8(b)(ii) to be conceptually consistent with the treatment of lease incentives under AASB 16.

Assets received as lease incentives - No transitional adjustment is required for an asset previously received from a lease incentive as the asset does not form part of the right-of-use asset. Where the asset is capitalised as property, plant and equipment (e.g. a fit-out), it will continue to be depreciated over its remaining useful life.

Transitional Treatment – assets and liabilities from ‘straight-lining’ of previous operating leases

Agencies who have assets and liabilities relating to the ‘straight-lining’ of previous operating leases shall derecognise these balances on transition, against either opening retained earnings under option C8(b)(i), or the right-of-use asset under option C8(b)(ii). This is because, for the purposes of paragraph C8(b)(ii), straight-lining assets and liabilities are considered ‘prepaid or accrued lease payments’.

However, ‘straight-lining’ balances that relate to arrangements under the Queensland Government Accommodation Office (QGAO) Framework or Government Employee Housing (GEH) Program should be derecognised against opening accumulated surplus on transition, because these arrangements are not leases under AASB 16. Accounting for QGAO and GEH arrangements is discussed further in section 1.4.1.5.

Treasury INTENDS TO PERMIT agencies to use any/all of the practical expedients available in paragraph C10 on a lease-by-lease basis.
Lessors

On transition, lessors need to reassess the classification of their subleases that were operating leases under AASB 117, by applying the new requirements in AASB 16 paragraph B58. If the lease is now a finance lease under AASB 16, the agency accounts for it as a new finance lease commencing at the date of initial application. There are no other transitional impacts for lessors.

1.4.1.2 Identifying a lease

The new definition of a lease under AASB 16 is “a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration”. A contract conveys the right to use an asset where there is an identified asset, and the customer/lessee has:

   a) the right to obtain substantially all of the economic benefits from use of the asset, and
   b) the right to direct the use of the asset (i.e. direct how and for what purpose the asset is used).

The concept of identified asset is substantially the same as a ‘specified asset’ in Interpretation 4. AASB 16 provides more guidance about when the supplier has substantive substitution rights and when a capacity portion of an asset is an identified asset.

The new criteria above that establish a right to control the use of the asset differ from those in Interpretation 4 paragraph 9. AASB 16’s control approach requires both a ‘benefits’ element and a ‘power’ element, consistent with other recent standards. This could, for example, result in arrangements that were leases under Interpretation 4 no longer being leases under AASB 16.

Agencies should gain an understanding of how to identify a lease under AASB 16, in particular paragraphs B9 to B30 and the flowchart in B31 are useful resources. Note that Treasury’s policy is that, on transition, agencies do not need to reassess all of their contracts to determine whether they are leases under AASB 16 or not (see paragraph C3). **Agencies will only apply AASB 16’s new ‘identifying a lease’ concepts to leases commencing (or modified) on or after 1 July 2019.**

For public-private partnerships (PPP) that are currently accounted for as leases, agencies must determine whether they are service concession arrangements under AASB 1059 Service Concession Arrangements: Grantors, which comes into effect one year after AASB 16. This may result in a reclassification of the arrangement in the 2020-21 financial year. Refer to section 1.4.4 below for details about AASB 1059.

1.4.1.3 Impacts for lessees

Unlike AASB 117, AASB 16 introduces a single lease accounting model for lessees. There will no longer be a distinction between finance leases and operating leases for lessees. Lessees will be required to recognise on balance sheet a right-of-use asset (representing the right to use the underlying leased asset) and a lease liability (representing the obligation to make future lease payments) for all leases except for the two exemptions below.

Recognition exemptions

1. Short-term leases – A short-term lease has a lease term of 12 months or less and does not have a purchase option. Treasury’s intended policy is agencies must apply the exemption for short-term leases of all classes of underlying assets.
2. Leases of low value assets – This exemption can be applied on a lease-by-lease basis. Treasury INTENDS TO MANDATE set the “low value asset” threshold at AUD $10,000. This threshold is applied to the value of the asset when new, regardless of the age of the asset being leased. For example, new cars in Australia cost more than $10,000, so cars are not low value assets and leases of cars will need to be brought on balance sheet, unless it is a short-term lease. For leases of low value assets (assets that cost less than $10,000 when new), agencies may choose whether to account for them on balance sheet. Examples of low value assets include tablets, personal computers, small items of office furniture and phones.

When a recognition exemption is applied to a lease, the lease is accounted for similar to an operating lease under AASB 117, by recognising the lease payments as an expense typically on a straight-line basis over the lease term.

It is expected that the majority of (what are currently classified as) operating leases will be reported on the Statement of Financial Position under AASB 16, potentially resulting in an increase in assets and liabilities for agencies. However, please refer to section 1.4.1.5 for certain internal-to-Government leases that will be exempt from on-balance sheet accounting.

Separating components of a contract

A lease contract can also include non-lease components such as maintenance services or supplies of consumables. The lessee is ordinarily required to separate out the lease and non-lease components and allocate the consideration to the components based on their relative stand-alone prices. The non-lease components are then accounted for under other applicable standards.

A practical expedient in paragraph 15 allows lessees to elect, by class of underlying asset, to not separate non-lease components from lease components, and instead account for them as a single lease component. This will result in a higher right-of-use asset and lease liability, but may require less effort. Treasury’s intended policy with regards to this practical expedient is:

- agencies shall apply the practical expedient (i.e. shall not separate out non-lease components) for leases of Plant and Equipment, and
- agencies shall not apply the practical expedient (i.e. shall separate out non-lease components) for leases of all other classes of assets as defined in NCAP 1.

Lease liability

The lease liability will be initially recognised at an amount equal to the present value of the lease payments during the lease term that are not yet paid. Operating lease payments will no longer be classified as operating expenses (e.g. rent expense). Instead, these payments will be apportioned between a reduction in the lease liability and a finance charge calculated at the applicable discount rate. The finance cost will be recognised as an expense.

When measuring the lease liability, agencies should note the following areas where additional care and judgement may be required.
(a) Determining the lease term

It is important to correctly assess the lease term as only those lease payments during the lease term are included in the liability measurement. Lease term is the non-cancellable period plus extension periods that the lessee is reasonably certain to exercise and early termination periods that the lessee is reasonably certain not to exercise. “Reasonably certain” should reflect a very high probability. The lease term concept in AASB 16 is similar to AASB 117. However, under AASB 16 the lease term can be revised throughout the lease, whereas in AASB 117 the lease term was set based on the lessee’s intentions at the inception of the lease. Also, ‘at market’ renewal options would be considered under AASB 16 and added to the lease term once its exercise becomes reasonably certain.

For example, an agency enters into a 5 year lease of a building with a 2 year extension option, and the agency can cancel the lease at any time without penalty by giving 12 months’ notice. In this case:

- The minimum non-cancellable period is 12 months.
- The agency must assess whether it is reasonably certain to not terminate the lease before the 5 year lease term is up. The agency determines that it is reasonably certain to lease the building for the full 5 years (i.e. not terminate early), so it adds an additional 4 years to the lease term.
- The agency then assesses whether it is reasonably certain to exercise the 2 year extension option. It determines that it is not reasonably certain to extend, so the lease term remains at 5 years.

Some leases may have an indefinite lease term and continue an ongoing basis into perpetuity until a party terminates the arrangement. For such leases, Treasury suggests agencies consider the following when evaluating such arrangements:

- Agencies should firstly consider if, notwithstanding the absence of a specified term, there is an implied lease term (or other reliably estimable time period over which they are reasonably certain to lease the asset) that may be appropriate to use as the lease term.
- For assets with finite useful lives, such as buildings, the lease term cannot exceed the economic life of the asset itself.
- For leases of land which has an infinite life, the agency should assess whether it is reasonably certain to lease the land indefinitely, and consult with Treasury to confirm the proposed accounting treatment. In some situations, agencies may be able to use a perpetuity formula to calculate the lease liability and not amortise the right-of-use asset. Often these perpetual land leases are also peppercorn leases and will be immaterial for the lessee.

(b) Fixed vs variable rent escalation clauses

Rent escalation clauses that provide for a fixed percentage or dollar increase are included in the initial measurement of the lease liability. This is no different from AASB 117.

Rent escalation clauses that depend on a future index or rate (e.g. consumer price index or market rentals) are considered variable lease payments. In contrast with AASB 117 where such payments are called ‘contingent rent’ and are expensed as incurred, AASB 16 requires these variable lease payments that depend on an index or rate to be included in the measurement of the lease liability. However, unlike fixed rent increases, these increases are only included in the liability measurement when there is a change in cash flows. Agencies should not attempt to estimate/predict future variable increases, and instead should assume no change (0% increase) until the future change happens.

For example, if rent increases on 1 July each year following a market rent review, the liability is remeasured on 1 July when the change in rent payment takes effect. At 30 June of the previous year, the lease liability does not take
into account this increase, or any hypothetical adjustment/estimate for future changes yet to be quantified. The market rent review increase on 1 July is also a non-adjusting event under AASB 110, and should be disclosed if it is material, for example where the rent increase is so large that will materially impact the calculation of the liability in future years.

(c) Using the appropriate discount rate

On transition, Treasury INTENDS TO MANDATE the ‘modified retrospective’ approach in paragraph C5(b). This means agencies must use their incremental borrowing rate to calculate the lease liability on transition for what were previously considered operating leases.

For new leases entered into after the transition date, the discount rate used to calculate the present value of the lease liability is the interest rate implicit in the lease, if that rate can be readily determined, or if not, the lessee’s incremental borrowing rate. Calculating the interest rate implicit in the lease requires some information that may only be available to the lessor. On this basis, Treasury’s proposed guidance is that if the interest rate implicit in the lease is specified in the lease agreement or otherwise provided by the lessor, agencies should use that rate, otherwise agencies can use their incremental borrowing rate.

Incremental borrowing rates could differ between leases of the same agency, for example between a 3-year lease and a 15-year lease. Treasury’s intended policy for incremental borrowing rates is that agencies shall use QTC’s Fixed Rate Loan rates that correspond with the lease commencement month and lease term. QTC may also charge an additional margin on top of their published rates, so agencies with QTC loans should check with QTC what the margin is. Other agencies can use the published rates as indicative rates, and consider the materiality of their lease portfolio and their specific circumstances to decide whether a more accurate rate should be sought.

QTC’s Fixed Rate Loan borrowing rates can be accessed using the QTC Link website. New users can obtain access to the site by completing the “QTC Link Access Request Form”, which is available via the “Access form” link at the bottom of the login page. Agencies who require access solely for the purpose of determining incremental borrowing rates for AASB 16 compliance may nominate they require “general access only” on the form.

Right-of-use asset

The right-of-use asset will be initially recognised at cost, comprising of

- the initial amount of the associated lease liability,
- any lease payments made to the lessor at or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee, and
- an initial estimate of future make-good costs, e.g. dismantling, removal and restoration.

The right-of-use asset is then depreciated over the lease term, or the underlying asset’s useful life where circumstances suggest that the lessee will use the asset for its entire useful life (see paragraph 32). AASB 136 Impairment of Assets will also apply to right-of-use assets.

Treasury considers measuring the right-of-use asset at fair value will not provide relevant or useful information to financial statement users given the benefit of the right-of-use asset is for providing ongoing service delivery. Further, the cost of determining a fair value would far outweigh the resulting benefit. Consequently, Treasury PROPOSES TO MANDATE the accounting policy that agencies shall not apply the revaluation model to right-of-use assets and shall measure the right-of-use asset at cost. (In some cases, the amortised cost of the right-of-use asset will approximate fair value.)
Where there are variable rent increases, the right-of-use asset is adjusted when the lease liability is remeasured. In practice, this may mean the carrying amount of the right-of-use asset is increased each year when the rent increase takes place, and depreciation also needs to be adjusted accordingly.

**Peppercorn/concessionary leases**

In December 2018, the AASB amended AASB 16 _Leases_ to provide temporary relief to not-for-profit entities from the requirement to fair value right-of-use assets obtained under peppercorn/concessionary leases until certain interpretative issues are addressed in the AASB’s _Fair Value Measurement for Public Sector Entities_ project.

Amending standard AASB 2018-8, as issued on 24 December 2018, allows not-for-profit entities to elect to initially measure the right-of-use assets from concessionary leases at _either cost or fair value_, with the election available on a class-by-class basis. If the entity elects to use cost, then some additional disclosures are required (see AASB 16 para Aus59.1 and Aus59.2).

**Treasury INTENDS TO MANDATE** that not-for-profit agencies consolidated within whole-of-Government will _measure all right-of-use assets from concessionary leases at cost on initial recognition until the AASB issues further pronouncements on this matter._

Agencies should note that instead of ‘peppercorn leases’, the standards use the term ‘leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives’. It also calls such leases ‘concessionary leases’ in the basis for conclusions. This definition would capture all leases that are typically considered peppercorn leases but is also somewhat broader than just peppercorn leases. For example, the lease payments do not have to be a ‘peppercorn’ (e.g. $1 per year), as long as they are “significantly below-market”. For example, lease payments that amount to between 10% or 20% of the market rental rate (i.e. an 80-90% discount) would be categorised as a concessionary lease. Lease payments that amount to anywhere between 30% and 70% of the market rental rate are, unless compelling evidence to the contrary exists, likely to meet the significantly below-market criteria. Ultimately, it is not possible to put a threshold or benchmark on what constitutes “significantly below-market” but is expected to be clear from the circumstances of the arrangement.

To meet the “principally to enable the entity to further its objectives” criterion, the lessor will generally be _voluntarily giving_ the NFP lessee the discount as a donation to the _specific entity_. If the below-market terms and conditions are also available to other entities, a concessional lease classification would not likely be met.

It is expected in most, if not all, circumstances, to be clearly evident whether a lease has significantly below-market terms and conditions.

**Financial Statement Presentation**

AASB 16 paragraph 47 allows for different presentation options for right-of-use assets and lease liabilities.

**Treasury INTENDS TO MANDATE** that agencies will present right-of-use assets separately from property plant and equipment and on the face of the statement of financial position, where material.

As lease liabilities will meet the definition of a financial liability, Treasury’s _PREFERRED APPROACH_ will be to require separate presentation of lease liabilities from other interest-bearing liabilities on the face of the statement of financial position. (The alternative is lease liabilities are included within interest bearing liabilities on the face of the statement of financial position with itemisation of the lease liability amount in the notes).
1.4.1.4 Impacts for lessors

Lessor accounting under AASB 16 remains largely unchanged from AASB 117. For finance leases, the lessor will continue to recognise a receivable equal to the net investment in the lease. Lease receipts from operating leases will continue to be recognised as revenue either on a straight-line basis or another systematic basis where appropriate.

Sublease classification

AASB 16 brings a minor change relevant to agencies with subleases. When classifying a sublease as a finance lease or operating lease, reference is made to the right-of-use asset arising from the head lease, rather than the underlying asset. This means, for example, the sub-lessee would assess whether the lease term of the sublease is for the major part of the economic life of the right-of-use asset (i.e. the lease term of the head lease). E.g. an agency leases building with a 40-year useful life for 15 years and subleases it to another party for 12 years. When classifying the sub-lease, the agency would compare the 12 year sub-lease with the 15 years of the head lease (not the underlying asset's useful life). In this situation, the 12 year sublease would likely be classified as a finance lease. This can result in some subleases that were operating leases under AASB 117 becoming finance leases in AASB 16.

Additionally, if the head lease is a short-term lease, then the sublease must be classified as an operating lease.

Subleases of a portion of a building

Agencies may sublease out a portion of a leased building, such as for a café or a retail shop, and these leases may be for the entire lease term of the head lease, which will technical require them to be classified as finance leases.

Treasury’s proposed guidance for such leases is that, where the total portion of the building that is subleased out under finance leases is insignificant, those finance leases can continue to be accounted for as operating leases. Treasury considers 30% or more of the floor space as being significant. If a significant portion of the building is subleased out under finance leases, then the agency shall account for those subleases as finance leases, and will need to calculate the portion of the right-of-use asset arising from the head lease that will be derecognised.

Treasury acknowledges internal-to-Government finance lease arrangements present several challenges for whole-of-Government reporting requirements and for agencies who must account for the underlying asset. Treasury cannot make a blanket policy determination as to how they should be accounted for – rather each arrangement needs to be assessed individually. It is therefore recommended that agencies impacted by internal-to-Government finance leases consult with Treasury and QAO to confirm the appropriate accounting treatment in their circumstances.

1.4.1.5 Exemption from on-balance sheet lease accounting for certain internal-to-Government leases

The following arrangements facilitated by the Department of Housing and Public Works (DHPW) will be exempt from AASB 16. The basis for this exemption is that the substantive substitution criteria of the Standard are, or will be, satisfied under the terms and conditions of the respective arrangements from 1 July 2019.

The arrangements exempt from AASB 16 are:
- Fleet vehicles provided to agencies through QFleet;
- Residential accommodation properties under the Government Employee Housing (GEH) program; and
- Non-specialised commercial office accommodation under the Queensland Government Accommodation Office’s (QGAO) Office Accommodation Management Framework.
The rationale outlining why the substantive substitution criteria are met for these three arrangements will be provided in future communication with agencies and also form part of the 2019/20 FRR update. Agencies will therefore present their 2019/20 actuals, in addition to their 2019/20 Budget as previously advised, on the basis that AASB 16 does not apply to such transactions.

Costs incurred in relation to QFleet, GEH and qualifying QGAO accommodation arrangements will be expensed as operating expenditure, and will NOT be accounted for as right-of-use assets and lease liabilities with depreciation and interest expense under AASB 16.

Agencies holding a right-to-use highly specialised/customised property through QGAO should be aware their arrangements are unlikely to meet the AASB 16 exemption criteria. This is because the lessor is unlikely to have substantive substitution rights for these specialised assets.

Agencies should not assume that because certain transactions under specified DHPW arrangements are exempt from AASB 16, that other internal-to-Government transactions are automatically exempt too. If you have an internal-to-Government lease that does not fall under QGAO, GEH or QFleet arrangements above, agencies should approach such transactions in the same way you approach an external-to-Government lease.

1.4.1.6 Contracts review and data collection

Treasury has developed the QT Leases Contract Review and Data Collection Worksheet. It is included as an Appendix to FRR 1A in a separate Word document on the FRRs web page. Agencies may use the worksheet when assessing a new arrangement for lease accounting purposes under AASB 16.

1.4.1.7 Portfolio application

Agencies may use the practical expedient in paragraph B1 to apply AASB 16 to a portfolio of similar leases where a portfolio application is not expected to differ materially from applying the standard to the leases individually.
1.4.2 AASB 1058 Income of Not-for-Profit Entities

Since December 2016, the AASB has issued AASB 1058, reissued AASB 1004 and issued a number of important amending standards relating to revenue recognition for not-for-profit (NFP) entities.

- **AASB 1058 Income of Not-for-Profit Entities** clarifies and simplifies the income recognition requirements of NFP entities for financial years commencing on or after **1 January 2019**. It also includes consequential amendments to other Australian Accounting Standards (refer Appendix D of AASB 1058).

- AASB 1004 has been reissued reflecting the majority of income recognition requirements that have been superseded or removed by the issue of AASB 1058. AASB 1004 will continue to exist after AASB 1058 becomes effective, but it will only contain requirements for equity contributions and distributions, restructures of administrative arrangements, and liabilities of departments assumed by other entities.

**Not-for-profit agencies** are reminded that AASB 1058 should be read in conjunction with AASB 15 Revenue from Contracts with Customers as AASB 15 provides specific guidance for NFP entities where they are required to apply AASB 15. The AASB has also issued a number of amending Standards that affect AASB 1058 and AASB 15.

As of June 2019, the AASB has now issued an **updated compiled version of AASB 15** which incorporates the following **amendments to AASB 15 relating to NFP entities**:

- **AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-profit Entities** extends the application date of AASB 15 to 1 January 2019 for not-for-profit entities only to coincide with the application of AASB 1058; and

- **AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities** amends:
  - AASB 9 by including statutory receivables within its scope and inserting an Appendix C that provides guidance on statutory receivables; and
  - AASB 15 by adding scope paragraphs and inserting Appendix F that provides guidance on whether transactions of not-for-profit entities are within the scope of AASB 15, including identifying enforceable agreements and sufficiently specific performance obligations.

- **AASB 2018-4 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors** amends AASB 15 by adding requirements specific to NFP public sector licensors and Appendix G containing guidance on accounting for licences revenue, in particular the timing of revenue recognition.

As of June 2019, the AASB has **not yet issued** an **updated compiled version of AASB 1058** that incorporates the following amending Standard:

- **AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities** further amends AASB 16 and also AASB 1058 to provide temporary relief to NFP entities from having to initially measure right-of-use assets from concessionary (i.e. ‘peppercorn’) leases at fair value. Entities that apply the temporary cost measurement option will not record any ‘day 1’ income from receiving a concessionary lease. See also Section 1.4.1.3.

**Not-for-profit agencies** reading AASB 1058 who have concessionary (or ‘peppercorn’) leases should ensure they also refer to AASB 2018-8 and Treasury’s proposed policy for applying AASB 2018-8 in practice.
1.4.2.1 Transitional arrangements

Treasury INTENDS TO MANDATE the partial retrospective approach in paragraph C3(b) of AASB 1058. Under this transition approach, agencies will not need to restate comparative figures in their 2019-20 financial statements. Instead agencies will recognise the cumulative effect of applying this standard as an adjustment to opening accumulated surplus at 1 July 2019. Additional disclosures in paragraph C7 are required when using this approach, Treasury will provide example disclosures in future model financial statements.

Treasury INTENDS TO PROHIBIT the election in paragraph C6 of applying the standard retrospectively only to contracts that are not completed contracts at 1 July 2019. A completed contract is one where the agency has already recognised all of the income in accordance with AASB 1004 prior to 1 July 2019. This means agencies will be required to assess any capital grants recognised as revenue/income prior to 1 July 2019 for which construction of the asset is not yet completed and recognise a liability reflecting the 'unspent' amount on transition, as per paragraph 16. (This does not apply to agencies (e.g. departments) who are equity appropriated for their capital expenses. See also AASB 15’s transition section (1.3.4.2) for the implications for grants that fall within the scope of AASB 15.

Treasury INTENDS TO MANDATE the practical expedient in paragraph C8 allowing agencies to ignore remeasuring assets that were acquired for significantly less than fair value prior to 1 July 2019 (and originally measured at cost) at fair value on transition to AASB 1058.

1.4.2.2 When does AASB 1058 apply to a transaction?

AASB 1058 applies to transactions of not-for-profit entities where the consideration to acquire an asset (including cash) is significantly less than fair value principally to enable the entity to further its objectives. Examples include:

- Cash and other assets received from grants, bequests or donations
- Receipts of appropriations by government departments
- Receipts of taxes and fines (noting that initial recognition and measurement of statutory receivables arising from these items is within the scope of AASB 9).
- Assets acquired for nominal or low amounts

AASB 1058 also applies to volunteer services – see section 1.4.2.5 below.

The standard does not specify what constitutes “significantly” less than fair value, so judgement is required in this area. By way of general guidance, and in the context of AASB 1058, where the consideration to acquire an asset represents:

- between 85-100% of the asset’s fair value (i.e. a 0-15% discount), the significantly less than fair value criteria is unlikely to be met;
- between 70-85% of the asset’s fair value (i.e. a 15-30% discount), the significantly less than fair value criteria may be met depending on evaluating the substance of the reasons for the discount; and
- less than 70% of the asset’s fair value (i.e. a discount exceeding 30% or more), Treasury would ordinarily presume the significantly less than fair value criteria will be met unless there is compelling evidence to the contrary.
When a government agency is transferred/contributed an asset for significantly below fair value, usually the purpose is to enable the entity to further its objectives. Examples where this may not be the case include where transferor is forced to transfer at below fair value (e.g. distress sales) or where the discount is part of the transferor’s business strategy and is available to other similar entities (e.g. trade discounts, government discounts). Taxes and fines are paid to enable the government to further its objectives, even if they are involuntary transfers.

Arm’s length or commercial transactions typically do not involve a party providing to an agency asset/s for significantly less than fair value principally to enable the agency to further its objectives. Such transactions include for example leases at market rent, borrowings on commercial terms, or where the consideration is provided solely for performance obligations that fall within AASB 15. AASB 1058 does not apply to these transactions.

AASB 1058 applies to the difference between the asset received and any credit amounts recognised under other standards, called ‘related amounts’. This difference is recognised as income immediately, except for capital grants which are discussed in section 1.4.2.4 below.

Taxes and Fines

In respect of taxes and fines levied by departments as administered revenue, Treasury is not aware of any material differences between when departments controlled the right to receive the contribution and recognised a receivable under AASB 1004 compared to recognition of a statutory receivable under AASB 9.

Departments who, under AASB 1004, only recognised administered revenue from taxes and fines on receipt – and not at the time the fine was issued or tax levied - are asked to contact Treasury’s Accounting Policy team to assess whether any transitional adjustments will be required on commencement of the AASB 2016-8 amendments.

Which standard applies – AASB 1058 or AASB 15?

Agencies must consider both AASB 1058 and AASB 15 when accounting for grants and contributions from 1 July 2019 onwards.

AASB 1058 will apply to an entire grant, or a portion of the grant, that does not meet the enforceable and sufficiently specific performance obligations of AASB 15. In addition, if the output of the activities the agency is required to do under the grant agreement (e.g. a constructed physical asset, or the results of research) is retained by the agency for its own use, the transaction would also be accounted for under AASB 1058.

AASB 15 will apply where the grant agreement is enforceable and does contain sufficiently specific performance obligations that will result in the agency providing goods or services to other parties. Revenue under these grant agreements may qualify for deferral.

A grant may contain both enforceable performance obligations and a donation component to enable to the entity to further its objectives. In this case, the grant must be allocated between the performance obligations (AASB 15) and the donation component (AASB 1058). Refer to AASB Appendix F paragraphs F28-F32 and Examples 6 & 7.

The flowchart below shows the decision process for deciding whether AASB 1058, AASB 15, or both apply to a grant transaction.
Applying AASB 1058 to a transaction

Transaction where the consideration to acquire an asset significantly less than fair value, principally to further the objectives of the entity?

Yes

No

Other applicable standards (eg AASB 9, 15, 16 etc) Out of scope of AASB 1058

Step 1: Recognise asset received as per relevant standards (DR) (AASB 9, 16, 116, 138)

Cash/receivable

Right of use asset

Property/Plant/Equipment

Other

Step 2: Recognise related amounts as below (CR)

Contributions by owners? (AASB 1004)

Financial Instruments? (AASB 9)

Lease Liability? (AASB 16)

Provisions? (AASB 137)

To construct recognisable non-financial asset? (AASB 1058)

Revenue/contract liability? (AASB 15)

Enforceable contract?

Yes

Sufficiently specific performance obligations?

Yes

Allocate transaction price to performance obligations (AASB 15.F28-F32)

No

No

Total Related Amounts (step 2)

Amount

Total Asset(s) Received (step 1)

Amount

Step 3: Recognise this difference as revenue or expense immediately

Amount

Total Related Amounts (step 2) - Step 1 less Step 2

Assets recognised under other standards are initially measured at fair value (or current replacement cost for inventories) as a result of amendments to those standards effected by AASB 1058 – refer to Appendix D of AASB 1058. Agencies then need to assess what related amounts need to be recognised under other standards, which will reduce the amount of revenue recognised under AASB 1058.
1.4.2.3 Changes to accounting for grants and contributions

AASB 1058, together with AASB 15, will bring significant changes to revenue recognition for grants and contributions.

Under AASB 1004 Contributions, revenue from non-reciprocal transfers (contributions) are recognised upfront, while reciprocal transfers are accounted for under other standards and may be deferred. A reciprocal transfer is one where the recipient of the funding directly gives approximately equal value to the grantor in exchange for the asset. This meant grants that were to be spent on providing benefits to third parties, such as the community, were classified as non-reciprocal transfers and therefore agencies recognised income upfront, even if the monies were to be spent over a number of years. This resulted in frequent mismatches between revenue and expenses.

Under the new framework of AASB 15 and AASB 1058, the key assessment is whether the grant is a ‘contract with a customer’ that falls within the scope of AASB 15. If so, the entity defers any grant monies received in advance in a ‘contract liability’ and recognises revenue when/as the performance obligations are satisfied. AASB 15’s scope includes arrangements where the grant recipient provides benefits to third parties on behalf of the grantor/customer.

AASB 1058 requires the difference between the asset received (e.g. cash) and any related amounts (e.g. contract liability under AASB 15) to be recognised as income immediately. For non-capital grants that are outside the scope of AASB 15, typically there will not be any related amounts and income is recognised upfront.

In summary, to defer recognition of grant income, agencies will no longer need to demonstrate they are directly giving approximately equal value back to the grantor. Agencies will instead need to demonstrate that the grant or funding agreement satisfy the ‘enforceable agreement’ and ‘sufficiently specific performance obligations’ criteria to be a contract with a customer under AASB 15. AASB 15’s revenue recognition rules will then apply to the grant and may result in deferral, refer to section 1.4.3 below.

The diagram below illustrates the changes in the conditions necessary for deferral of grant income.

Guidance on determining whether there is an enforceable agreement and sufficiently specific performance obligations are in the AASB 15 section below.
**Grant expenses**

AASB 1058 and AASB 15 do not apply to grant expenses. As a result, there will continue to be no specific AASB standard that addresses accounting for grant expenses.

At present, Treasury’s current policies in FRR 3E apply the reciprocal vs non-reciprocal test to distinguish between grants and procurement, which determines the timing of expense recognition. Although this approach essentially mirrors the revenue recognition requirements under AASB 1004, it also reflects the fact that a genuine procurement transaction involves the direct exchange of goods or services between the party providing the consideration and the party delivering the goods/services.

However, agencies should not assume that accounting for grant expenditure once AASB 1058 and AASB 15 become effective is simply a matter of ‘mirror accounting’ the principles of AASB 15. The deferral of qualifying grant revenue under AASB 15 applies a different concept to the reciprocal vs non-reciprocal principle of AASB 1004.

Under AASB 15, the economic benefits embodied within a grant may be provided to third parties on the grantor’s behalf and the revenue will still qualify for deferral. However, as the grantor itself does not, in these circumstances, control the economic benefits embodied in the right to receive goods or services, the definition of an asset will not be met. Consequently, from the grantor’s perspective, a prepayment (i.e. asset) is not anticipated to arise in practice for grants where the benefit is provided to third parties.

A prepayment will realistically only arise where the entity providing the consideration directly controls the benefits embodied in the asset and is yet to receive those benefits. For this reason, prepayments will typically only represent genuine procurement transactions for the future delivery of goods or services not yet received by the entity (i.e. transactions that are ‘reciprocal’ in nature).

Treasury will be updating FRR 3E as part of the 2019/20 FRR update. However, Treasury’s proposed accounting policy (from the grantor’s perspective) will be that for all grants where the benefit is provided to third parties (similar to the existing ‘non-reciprocal’ transfer concept), the grantor shall recognise grant expense upfront when the grant is paid (or when the grantee becomes entitled to the grant, if earlier). In practice, we do not anticipate grant expenditure will qualify for capitalisation as a prepaid asset and expect no material change from the current accounting treatment for grant expenditure by grantors. Accordingly, the grantor may recognise expenses earlier than when the grantee recognises revenue.

### 1.4.2.4 Capital grants

Usually grants that do not result in ‘related amounts’ under other accounting standards are recognised upfront. However, AASB 1058 requires deferral of income for capital grants received by the entity that meets the following three criteria:

1. The grant agreement requires the agency to acquire or construct the asset to identified specifications. The resulting asset must be a non-financial asset that is recognisable by the agency (e.g. under AASB 116 or AASB 138).

2. The agency is not required to transfer the asset to the grantor or other parties.

3. There is an enforceable agreement – this may be evidenced by a requirement to return funds if they were not used to acquire/construct an asset to the set specifications.

For capital grants meeting the above criteria, agencies would initially recognise an unearned revenue liability under AASB 1058 and recognise income when/as the entity satisfies its obligations under the transfer (e.g. when it acquires the asset or as it constructs the asset). This treatment is similar to a grant that falls within the scope of AASB 15. The constructed asset is recognised under other applicable standards such as AASB 116. Note that the...
amendments in AASB 1058 Appendix D about initial measurement at fair value would not apply to the acquired / constructed asset.

1.4.2.5 Volunteer services

Similar to under AASB 1004, government departments must continue to recognise volunteer services received as income where the fair value of the services can be measured reliably and the services would have been purchased if they had not been donated. The debit side of the transaction would be to an expense or an asset, as appropriate.

AASB 1058 also allows any NFP entity to recognise income for volunteer services whose fair value can be measured reliably, irrespective of whether the services would have been purchased if they had not been donated. However, Treasury's policy is that agencies shall not recognise volunteer services that would not have been purchased if they had not been donated.

Therefore, agencies’ accounting for volunteer services will not change from current requirements as per AASB 1004 and the FRRs. AASB 1058 paragraph 27 encourages additional disclosures about volunteer services received, Treasury will consider the form of such disclosures in due course.
1.4.3  AASB 15 Revenue from Contracts with Customers

1.4.3.1 Overview

Application date

The application date for AASB 15 is as follows.

- Not-for-Profit entities: 1 January 2019 (refer to AASB 2016-7)
- For-Profit entities: 1 January 2018 (refer to AASB 2015-8)

For-profit entities should already be accounting for revenue from contracts with customers under AASB 15.

Summary of the standard

AASB 15 sets out a comprehensive model for accounting for all revenue from contracts with customers, i.e. contracts involving the delivery of goods and/or services. AASB 15 will replace AASB 111 Construction Contracts, AASB 118 Revenue and a number of related interpretations. A contract will be outside the scope of AASB 15 if it falls within the scope of other specific standards such as leases (AASB 16), insurance contracts (AASB 4 / AASB 17) and financial instruments (AASB 9). AASB 15 introduces a five-step revenue recognition model:

1. identify the contract;
2. identify the performance obligations;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations; and
5. recognise revenue progressively as individual performance obligations are satisfied.

The model specifies that revenue should be recognised when an entity transfers control of goods/services to a customer, at the amount to which the entity expects to be entitled. Depending on specific contractual terms, the new model may result in a change in the timing and/or amount of revenue to be recognised. For example, some revenue may be recognised at a point in time (e.g. when control is transferred to the customer) and other revenue may be recognised over the term of the contract (e.g. when the entity satisfies its performance obligations progressively over a period of time).

Potential impact

The potential impact of AASB 15 on individual agencies will depend on the types of goods/services they provide, and whether/how the various concepts of AASB 15 (e.g. ‘contract’, ‘performance obligations’, etc.) would apply to existing arrangements. In particular, agencies receiving grants that have conditions attached are likely to be impacted by AASB 15 in conjunction with AASB 1058 – refer to section 1.4.3.3 below.

Agencies are strongly advised to undertake a careful review of AASB 15 to assess whether/how it may apply to their own transactions/arrangements. Agencies may need to implement new information gathering and/or system processes to enable compliance with the more comprehensive accounting and disclosure requirements of AASB 15.
1.4.3.2 Transitional arrangements

Treasury INTENDS TO MANDATE the partial retrospective approach in paragraph C3(b) of AASB 15. Under this transition approach, agencies will not need to restate comparative figures in their 2019-20 financial statements. Instead agencies will recognise the cumulative effect of applying this standard as an adjustment to opening accumulated surplus at 1 July 2019. Additional disclosures in paragraph C8 are required when using this approach, Treasury will provide example disclosures in future model financial statements.

Treasury INTENDS TO PROHIBIT the election in paragraph C7 of applying the standard retrospectively only to contracts that are not completed contracts at 1 July 2019. A completed contract includes one where the agency has already recognised all of the income in accordance with AASB 1004 prior to 1 July 2019. As a result, agencies will be required to assess any grants received prior to 1 July 2019 that fall within the scope of AASB 15 for any unsatisfied performance obligations and recognise a liability for those obligations on transition. This effectively allows agencies to ‘recycle’ revenue that was previously recognised under AASB 1004 and recognise them again when the agency satisfies the remaining performance obligations, and thus avoid being hit with potentially significant operating losses post-transition.

Treasury INTENDS TO MANDATE the practical expedient in paragraph C7A(b) of accounting for the aggregate effect of all contract modifications in accordance with paragraph C5(c) for all modifications that occur before the date of initial application (1 July 2019).

1.4.3.3 Deferral of grant income under AASB 15

Not-for-profit agencies will need to assess the implications for grants and contributions currently recognised as revenue immediately on acquiring control in accordance with AASB 1004. With AASB 15, the revenue may be deferred (initially recognised as a contract liability) to the extent that there is a contract to transfer goods or services to a customer, incorporating an enforceable agreement and sufficiently specific performance obligations. A single grant agreement may include both a contract with a customer under AASB 15 and a donation component, in which case the funds must be allocated to each component.

As discussed in section 1.4.2 above, this includes arrangements where agency provides goods/services to third party beneficiaries on behalf of the grantor. The agency will not be required to directly provide the goods/services back to the grantor, which is a currently a necessary condition for deferral under AASB 1004’s reciprocal vs non-reciprocal framework. Nevertheless, the agency must still be transferring goods/services to another party, i.e. it cannot retain the output solely for its own use.

The diagram below illustrates the key public-sector considerations when applying AASB 15’s five-step model.
The changes in accounting requirements mean agencies will need to analyse their funding agreements in a greater level of detail than previously required. Appendix F to AASB 15 and its accompanying illustrative examples provide guidance on when agreements would meet the prerequisites to be a ‘contract with a customer’ and fall within the scope of AASB 15. Agencies are strongly encouraged to read Appendix F and the Illustrative Examples in AASB 1058 in detail to understand the relevant terms and features to look for in funding agreements in order to make this important assessment. Agencies must also evaluate agreements holistically after considering the combination of all relevant factors.

Below are some factors and indicators agencies may consider when evaluating their existing agreements and setting up new grant agreements. These are largely obtained from AASB 15 Appendix F and AASB 1058 Illustrative Examples.

**Transfer of goods or services to a customer**

“Customer” is defined in AASB 15 as a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration. As noted above, the customer can direct the entity to provide the goods or services to third parties on the customer’s behalf.

- Grant arrangements where the agency retains the output of the activities (e.g. constructed asset, intellectual property from research) for its own use will be outside the scope of AASB 15 as it does not involve a transfer of goods or services to a customer. Agencies should apply AASB 1058 to these grants.
In some cases, an agency may be party to a contract, but it has no obligation or control over the transfer of goods or services to the customer – rather, its obligations are limited to solely transfer (or 'pass through') cash between other relevant parties. Agencies should carefully examine such arrangements as the transaction (or components of a transaction) may not fall within the scope of AASB 15/AASB 1058 – instead, the agency may have a financial liability to be recognised under AASB 9 for monies to be passed on. Refer to section 1.4.3.8 for further discussion on the topic of pass-through grants/monies.

(N.B. For the avoidance of doubt, the previous dot point does not specifically relate to monies appropriated to Departments to provide grant funding to Statutory Bodies under that department’s responsibility. Treasury will provide separate advice on this topic in the 2019/20 financial year to confirm the treatment of such grants.

This dot point concerns how AASB 15/AASB 1058 might impact the transfer of other grants between Government agencies, and especially where the monies are passed through agencies using a ‘post-box’ arrangement.

Agencies who have identified material ‘pass-through’ transactions involving other Government agencies are requested to contact Treasury’s Accounting Policy team and your Treasury Analyst with your proposed accounting treatment once you have completed your assessment of the ‘pass-through’ transaction(s).

Performance obligations do not include activities that an agency must undertake to fulfil a contract unless those activities transfer a good or service to a customer. For example, research activities undertaken to develop intellectual property that the entity will license to a customer are not themselves a transfer of goods or service (Paragraph F21) Also refer to section 1.4.3.7 for more guidance on research grants.

### Enforceable agreement

#### Form of agreement

- Usually a signed document such as a contract, a memorandum of understanding or a letter of intent forms the basis of an enforceable agreement. An agreement may be enforceable even if it is not legally binding and does not impose any refund obligations, as long as both parties have indicated their intent to rely upon it (Appendix F Example 1)

- Contractual agreements include those entered into at the direction of the grantor. For example, an agency may not have any say in whether or not it receives a contribution, but upon receiving the funds (with conditions attached), it has entered into an agreement.

- Enforcement mechanisms may arise from administrative arrangements or statutory provisions, such as a Ministerial Directive.

- Statements of intent to spend money or use assets in particular ways are in the nature of public policy statements; these do not by themselves create enforceable agreements. Examples here include budgets and service delivery statements.

#### Who can enforce the agreement?

- Generally, an agreement can be enforced by the customer/grantor, a party authorised to act on their behalf, and the judiciary (being the ‘separate party’ referred to in paragraph F11).
• Third party beneficiaries who receive the goods and service generally cannot enforce the agreement as they are not parties to the agreement. Those third parties may have certain rights under enacted legislation, however those rights exist independently from the agreement between the grantor and the recipient agency.

History of enforcement action is not relevant

• Enforceability is assessed on the grantor’s capacity and rights to enforce. It is not relevant that the grantor has historically not enforced similar agreements (e.g. not asking for refunds).

Refundability in event of non-performance

• The requirement to refund grant monies if they had not been spent on specified performance obligations is often an indicator of an enforceable agreement.

• However, refund of monies that are not spent within a specified time period is not, by itself, an indicator of an enforceable agreement.

• Instead of requesting a refund, the grantor may decide to reduce future funding to the agency, e.g. in multi-year grant agreements.
  ➢ It is an indicator of enforceability if the grantor can reduce future funding to which the agency is presently entitled, effectively the grantor is choosing to settle the refund in net.
  ➢ However, withholding of future funding to which the agency is not presently entitled does not demonstrate enforceability.

Other indicators of an enforceable agreement (F12)

• The parties to the agreement needing to agree on any alternative use of funds as a sign of an enforceable agreement.

• The grantor/customer has the right to take a financial interest in assets purchased or constructed by the recipient using the grant funding.

• An administrative process is established to enforce the agreement between the Commonwealth and the State of Queensland.

An agreement may be partially enforceable

• An agreement may be partially enforceable, for example, if only a portion of the grant is subject to refund if specified activities are not performed. In this case, the agency may recognise a contract liability under AASB 15 for the enforceable portion, and income under AASB 1058 for the non-enforceable portion.
Sufficiently specific performance obligations

Ability to measure progress towards satisfaction of performance obligations

- For performance obligations to be sufficiently specific, the agency must be able to determine when (or to what extent) the obligation is satisfied, in order to work out when and how to recognise revenue under AASB 15.
- To have sufficient specific performance obligations, the goods or services to be provided must be specified by or determinable in accordance with the agreement; they must not be at the discretion of the agency.
- Agencies must apply judgement, including taking into account any conditions specified in the contract, whether explicit or implicit, regarding the following aspects:
  - The nature or type of the goods/services
  - The cost or value of the goods/services
  - The quantity of the goods/services
  - The period over which the goods/services must be transferred
- The agreement may require an acquittal process for the recipient to demonstrate progress towards transferring the goods or services. Depending on the requirements of this process, it may provide evidence that the promise to transfer goods/services is sufficiently specific. (F26)
- Periodic progress reporting may also assist agencies with measuring its progress towards satisfying performance obligations. However, such reporting obligations are not considered separate performance obligations themselves. (Appendix F Example 2)

Example of performance obligations that are likely to be sufficiently specific:

- The quantity of goods/services to be provided is specified or can be determined, for example:
  - Provide free student accommodation for one student each year for 30 years (AASB 1058 Example 3C)
  - Provide a specified number of hours of counselling services each week for 12 months (AASB 1058 Example 6B)
  - Construction of two water wells for each $800 of donations received (AASB 1058 Example 7D)
- Agreement is to provide specified services over a specified period, for example:
  - Undertake research on a specific topic over 3 years and publish research data as it is obtained (Appendix F Example 4A).

Performance obligations satisfied over time

When assessing if performing obligations are satisfied over time, agencies are directed to the three criteria in paragraph 35 of AASB 15 and the requirement that one of the three must be met.
Examples of contractual terms that are *unlikely* to be sufficiently specific:

- An obligation to ‘spend money’ alone does not constitute a performance obligation. AASB 15 is about the goods or services the agency is required to transfer to a customer in return for the funding received.

- Obligations would not be sufficiently specific if the agency would be unable to measure its progress towards satisfying the obligations. This is usually the case when the goods/services to be provided are unspecified, unquantifiable, or is at the discretion of the agency. For example:
  
  - Undertake education programs over 3 years to increase the literacy of students in a specific rural area (AASB 1058 Example 8A)
  - Provide free student accommodation for one student each year, for as long as the university operates (AASB 1058 Example 3B)
  - Undertake research on a specific topic and publish results when appropriate, as determined by the research entity (Appendix F Example 5A).

- A requirement that the entity must spend the funds to perform activities in accordance with its charter or stated objectives is unlikely be sufficiently specific, even if the entity has a single purpose charter or a single objective. (AASB 1058 Example 6A, AASB 15 paragraph F25)

### 1.4.3.4 Contract modifications

AASB 15 has new requirements around contract modifications, with three different accounting treatments possible depending on the circumstances of the modification. This is summarised in the flowchart diagram below.

**Contract modifications under AASB 15**

- Addition of distinct goods or services AND price increase reflects the stand-alone prices of the new goods or services: **Yes**
  - Account for the additional goods or services as a separate contract and keep the existing contract
  - *Paragraph 20*

- Remaining goods or services are distinct from goods or services already transferred up to the date of modification: **Yes**
  - Terminate the existing contract and create a new contract based on the remaining goods or services
  - *Paragraph 21(a)*

- **No**
  - Revise the existing contract by reallocating the total transaction price to the performance obligations and adjust revenue recognised
  - *Paragraph 21(b)*
Note that on transition, agencies are to apply the practical expedient in paragraph C7A(b) and would not retrospectively account for contract modifications that happened prior to transition. Nevertheless, agencies should familiarise with the new requirements for application to changes to revenue contracts, such as grant or funding agreements, after 1 July 2019.

1.4.3.5 New principal vs agent rules

Principal vs agent rules determine whether certain transactions are recognised in an entity’s financial statements. The current distinction set out in AASB 118 is that an entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services, and is acting as an agent when it does not have such exposure.

The distinction is changed in AASB 15 to whether the entity ‘controls’ a good or service before transferring that good or service to the customer. Control in the context of goods and services is discussed in paragraph 33. Indicators that an entity is acting as principal include (B37):

- The entity is primarily responsible for fulfilling the promise to provide the good or service.
- The entity has inventory risk before transferring the good or service to the customer.
- The entity has discretion in establishing the price for the good or service.

The above indicators in AASB 15 are largely consistent with AASB 118 Illustrative Example 21, except that the entity being exposed to credit risk is no longer listed as an indicator. Agencies will need to reassess transactions where the agency was previously determined to be acting as principal solely because of credit risk in the context of revenue/expenses from the sale of goods or services - these transactions may need to be reclassified as agent transactions under AASB 15 (having regard to the circumstances of the arrangement). Agencies with transactions where it is acting as an agent are directed to paragraphs B34-B38 (including uncompiled amendments in AASB 2016-3) and reassess transactions where necessary.

1.4.3.6 Public sector licences

In September 2018, the AASB issued AASB 2018-4 on accounting for licence revenue by not-for-profit public sector licensors. This amending standard brings licences issued by NFP public sector entities into the scope of AASB 15 and provides guidance on their accounting treatment (in Appendix G). This includes statutory licences and non-intellectual property licences, for example driver’s licences, gaming licences, blue cards, fishing licences, etc.

Excluded are ‘licences’ that are within the scope of AASB 16 or AASB 1059, which will be accounted for under those standards.

Licence vs tax

The guidance in Appendix G distinguishes between licences and taxes (refer paragraphs G3-G7). An important difference is that licences are ‘discretionary’ while taxes are ‘compulsory’. This difference can be illustrated by the consequences of avoiding payment of the licence fee or tax, for example:
• Casino licence – If an entity operates a casino without a licence, they may be fined but they will not be compelled to retroactively obtain a licence and pay a licence fee. Also, the entity might not actually be qualified to obtain a casino licence in the first place.

• Gaming tax – If an entity earns gaming income and does not pay the tax, they will be compelled to pay the tax owed plus any interest or penalties.

Revenue from licences are accounted for under AASB 15, while income from taxes are accounted for under AASB 1058.

Agencies’ performance obligations in licences

Licence revenue is recognised by applying the same five-step model in AASB 15. Appendix G contains guidance on identifying performance obligations in relation to licence revenue.

• Most commonly, the sole performance obligation the agency will have is to issue the licence to the licensee. In this case revenue will be recognised when the licence is issued. Treasury expects that licence revenue will be recognised upfront coinciding with the issue of the licence in the majority of cases.

• An exclusivity promise is not a performance obligation, rather it is an attribute or feature of the licence. For example – a promise to not issue a similar licence to another party and to ensure no other parties engage in the activities that the licensee has an exclusive right to.

• Enforcement or policing activities that are undertaken to benefit the general public rather than the licensee are not performance obligations because they do not transfer goods or services to the licensee. For example – activities to ensure the licensee is not carrying out illegal activities or to ensure the licensee continues to meet eligibility requirements.

Short-term and low value licences

Similar to AASB 16, the amending standard allows exemptions for short-term licences and low value licences. A short-term licence has a term of 12 months or less, and examples of low value licences include driver licences, marriage licences and blue cards.

However, to ensure consistency in revenue recognition and ensure licence revenue is accounted for in a cost-effective manner by agencies, Treasury INTENDS TO MANDATE that agencies will recognise revenue from all licences, including short-term licences and low-value licences, in line with the principles of AASB 15. In effect, Treasury intends that the practical expedients will NOT BE APPLIED by Queensland Government Agencies.

Although this will require agencies to identify the performance obligations and recognise revenue when the performance obligations are satisfied, as noted above, licence revenue is expected to be recognised upon issuing the licence for most types of licences on the basis that:

• the sole performance obligation the agency will have is the issue the licence to the licensee; or

• all materially identifiable performance obligations will be completed prior to the issue of the licence.

Licence fees that are refundable if the licensee cancels their licence

Some licences fees received by agencies may be partially refundable (e.g. on a pro-rata basis) if the licensee decides to cancel their licence at any time. A refund obligation alone is not sufficient to defer the revenue to be recognised straight line over the licence period.
Agencies should instead apply AASB 15 paragraph 55 and estimate a portion of the licence fee that is expected to be refunded and recognise that portion as a refund liability. For example, if based on historical data, 5% of licence fees end up being refunded, the agency would recognise a $1000 licence fee as $950 revenue upfront and $50 refund liability. The refund liability is debited when refunds are paid. The refund liability must also be reassessed and updated at the end of each reporting period, with any adjustment taken to revenue.

In the rare event that an agency cannot reliably estimate the expected refunds, for example for a new type of licence, licence fee is to be recognised reflecting the applicable performance obligation(s) until sufficient historical data becomes available. Paragraph 55 must be applied as soon as a reliable estimate of refunds can be made.

**Amounts charged for conduct of licenced activities**

In addition to the licence fee, the licensee may also need to pay amounts to the State for as a result of conducting licenced activities. For example, a mining company would pay a licence fee for the permission to undertake mining activities and pay royalties for what they mine.

Treasury’s proposed accounting policy is that where the amount payable (in the form of a fee, tax, royalty etc) is separately prescribed in legislation or regulation that is not specific to the licencing arrangement with the licensee, it is considered a tax and is accounted for separately from the licence fee.

Taxes are typically recognised as income under AASB 1058 when the taxable event occurs. – refer to FRR 4E for guidance on taxable events and the timing of recognition of statutory receivables.

Where the performance of licenced activities is entirely within the control of the licensee (including decisions about whether and how much activities to conduct), Treasury’s proposed guidance that agencies should only recognise revenue/receivable when the activities are conducted. This is because, prior to the activities occurring, the agency does not control a receivable asset as it is dependent on future performance of the licensee (the ‘past event’ has not yet occurred).

**Licences with quotas**

Licences with quotas include, for example, a fishing or macropod harvesting licence that entitles the licensee to harvest a certain quantity of fish or macropods over a licence period. Appendix G paragraph G21 states that for these licences, issuing of the licence and the promise to deliver ‘goods’ are a single performance obligation.

The agency may not be able to determine when the goods (e.g. fish) are actually delivered/taken, and thus the extent to which its performance obligation is satisfied. In this case, Treasury’s proposed guidance is that these licences be recognised straight line over the licence period.

### 1.4.3.7 Research activities

In August 2018, the AASB issued a staff FAQ that addressed the timing of revenue recognition from research grants. The decision process can be summarised by the flowchart on the following page. (The examples referred to are in Appendix F of AASB 15):
1.4.3.8 Pass-through grant arrangements

Often agencies are given grant funding to be passed on to end recipients who may be internal or external to Queensland Government. These ‘pass-through’ funding arrangements warrant careful assessment to ensure the accounting treatment matches the substance of the transaction.

Some key questions to consider include:

- Is the agency’s obligation under the head grant agreement to deliver on outcomes or simply to pass the funding to another entity?
- Are the obligations sufficiently specific and enforceable?
- Is the agency principally responsible for delivering the outcomes or is the agency acting as an agent and arranging for other parties to deliver the outcomes?
- Are the pass-through funds held in the agency’s controlled bank account or in a separate trust account?
Treasury’s proposed guidance for pass-through grant funding are summarised in the following table.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Treasury guidance on accounting treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>The funding agreement does not contain obligations that are sufficiently specific and enforceable</td>
<td>Without sufficiently specific and enforceable obligations, there will likely not be any ‘related amounts’ as described in AASB 1058 and the agency would recognise revenue upfront / upon receipt.</td>
</tr>
<tr>
<td>The agency’s obligation is solely to pass on the cash to another entity</td>
<td>Sometimes the agency’s role is merely acting as a post box to facilitate the head grantor passing a grant to the end recipient. In this scenario, the agency should recognise a financial liability under AASB 9 for the obligation to on-pay the funding to the end recipient, and not recognise any revenue or expense. For the cash flows statement, the inflows and outflows should be reported under operating activities on a gross basis.</td>
</tr>
</tbody>
</table>
| The agency’s obligation is to transfer goods or services (e.g. construct an asset, deliver on outcomes, etc.)                            | A grant that has sufficient specific and enforceable obligations to transfer goods or services will be within the scope of AASB 15. Agencies should then consider AASB 15’s principal vs agent distinction (in paragraphs B34-B38).  
  • If the agency is principally responsible for the achievement of outcomes under the agreement:  
    o recognise a contract liability upfront, and recognise revenue as the performance obligations are satisfied  
    o recognise expense or asset, as appropriate, when the funds are paid to the third parties  
  • If the agency is acting as an agent and is arranging for other parties to provide the goods or services:  
    o recognise a liability upfront, and recognise revenue only to the amount of any fee or commission when the agency satisfies its performance obligations (i.e. arranging the goods/services)  
    o payments to the third parties will directly reduce the liability and will not affect the income statement  
    o amount of revenue recognised will usually be the difference, if any, between the funding received and funding passed on |
| Where the grant funds are held in a separate trust account                                                                                 | In the above scenarios, if the funds are held in a separate trust account (and not in the agency’s operating bank account), the agency may not actually control the cash received. In this case the agency would not recognise the cash, liability or revenue in its controlled accounts. Instead it would need to make disclosures about the trust balances in accordance with FRR 2E.1. |

### 1.4.3.9 Disclosures

AASB 15 contains many new disclosures and will significantly increase the volume of disclosures regarding revenue compared to existing standards. There will also be extended disclosures on significant judgements made by the entity in applying various aspects of the standard. Agencies are encouraged to familiarise themselves with the disclosure requirements in paragraphs 110 to 129 and consider whether changes to existing systems are needed to capture the necessary information.
1.4.4 AASB 1059 Service Concession Arrangements: Grantors

AASB 1059 Service Concession Arrangements: Grantors will be effective for reporting period beginning on or after 1 January 2020. The effective date of AASB 1059 has been deferred from 1 January 2019 to 1 January 2020 – refer to AASB 2018-5. This standard addresses accounting by public sector grantors in Service Concession Arrangements, also known as public-private partnerships (PPPs).

Agencies should review their existing PPP arrangements and any forthcoming/proposed PPPs to identify whether they will be impacted by AASB 1059, and assess the potential financial statement impacts.

1.4.4.1 Transitional arrangements

Under AASB 1059, agencies will be required to adjust their comparative figures in their 2020-21 financial statements and will require agencies to determine an opening balance for each service concession arrangement at the beginning of the comparative period (1 July 2019).

However, Treasury INTENDS TO MANDATE the ‘partial retrospective’ option in paragraph C3(b) of AASB 1059 allowing agencies to:

- Recognise service concession assets at their current replacement cost at 1 July 2019;
- Recognise any financial liability in accordance with AASB 1059 (being the current replacement cost adjusted for any consideration received/paid between the grantor and operator);
- Recognise any unearned revenue liability in accordance with para C4(c). In April 2019, the AASB decided to propose an amendment to the method of calculating the GORTO liability in para C4(c) so that the GORTO liability is initially measured by the current replacement cost of the service concession asset adjusted to reflect the remaining concession period relative to the total period of the arrangement, rather than relative to the remaining economic life of the asset.
- Recognise the net difference between assets and liabilities in opening accumulated surplus.

1.4.4.2 Existing pronouncements

Before AASB 1059, there were no authoritative accounting guidance for grantors for service concession arrangements. Related pronouncements include:

- Interpretation 12 Service Concession Arrangements – This interpretation only addresses accounting by operators and does not address accounting by grantors.
- Interpretation 129 Service Concession Arrangements: Disclosures – This interpretation addresses disclosure requirements for service concession arrangements, but does not provide guidance on accounting (recognition and measurement) for such arrangements.
- IPSAS 32 Service Concession Arrangements: Grantor – Issued by the International Public Sector Accounting Standards Board.

Although AASB 1059 is broadly consistent with IPSAS 32, there are a few differences which are outlined in the standard under the section “Comparison with international pronouncements”.
Treasury’s position (in FRR 5D) is that agencies are not to apply IPSAS 32 or mirror accounting of Interpretation 12 without first undertaking a thorough review of the circumstances and substance of the arrangement. Agencies are required to make the disclosures required by Interpretation 129. In the absence of specific accounting pronouncements, agencies with service concession arrangements have generally followed guidance in Appendix 1 of FRR 5D and as a result:

- have not recognised ‘Economic infrastructure arrangements’ on the balance sheet, and
- recognised ‘Social infrastructure arrangements’ as leases in accordance with AASB 117.

1.4.4.3 Scope of AASB 1059

AASB 1059 defines service concession arrangements and uses a control approach to assess which arrangements are within scope and are therefore recognised on the balance sheet.

Service concession arrangements

A service concession arrangement is defined as a contract between a grantor and an operator in which:

a) the operator has the right of access to the service concession asset (or assets) to provide public services on behalf of the grantor for a specified period of time;

b) the operator is responsible for at least some of the management of the public services provided through the asset and does not act merely as an agent on behalf of the grantor; and

c) the operator is compensated for its services over the period of the service concession arrangement.

For an arrangement to be a service concession arrangement under AASB 1059, the operator must be providing public services on behalf of the grantor and be managing at least some of those public services under its own discretion, rather than at the direction of the grantor. It is important to correctly apply this concept in certain build and maintain arrangements where the operator constructs public infrastructure and provides maintenance services for the duration of the arrangement.

Agencies need to assess what are the public services provided by the asset and the extent to which the operator’s services contribute to the public services provided by the asset.

Asset provides public services

Paragraphs B6 – B9 of AASB 1059 provide guidance on assessing the public services provided by an asset.

Some arrangements may have a single asset, however multiple services are provided by/through that asset. In such circumstances, a judgement will be required as to the nature and relative significance of each separate component and services provided to determine if the asset provides a public service.

For example, a courthouse building provides multiple services, such as courts, administrative offices and other associated services. The services provided by the administrative offices may be unrelated to the court services and therefore considered ancillary if they are insignificant to the arrangement as a whole, and in that case would not affect the assessment that the building provides public services. However, if the unrelated administrative services were significant to the arrangement as a whole, the courthouse building might be assessed as not providing public services.

Similarly, a hospital might provide multiple services such as normal surgical/medical health care services and other associated services (e.g. florists, newsagencies, cafeteria). The associated services are unrelated to the
surgical/medical services and would most likely be insignificant ancillary services when compared to the arrangement as a whole. In this case, the associated services would not affect the assessment that the hospital provides public services.

Another common situation involves an arrangement provided by way of a primary asset combined with a single (or multiple) secondary asset(s).

If an arrangement provides public services principally through a primary asset, and a secondary asset is used or is mainly used to complement the primary asset, the secondary asset would be regarded as providing public services as well. Examples include student accommodation for a public university or a car park constructed by an operator as part of constructing a hospital service concession arrangement that largely provides public services. The car park may provide limited ancillary services without affecting the assessment that the car park is used to provide public services.

However, if the car park was not constructed as part of the hospital service concession arrangement (e.g. subsequent to the construction of the hospital or with a different party) and is largely of a commercial nature (e.g. car parking is available to the general public, including hospital patrons), the car park would be regarded as an asset that does not provide public services, and therefore outside the scope of AASB 1059.

Paragraphs 2 and 5 of AASB 1059 outline the criteria for when AASB 1059 is applicable to an arrangement. Treasury has recently been requested to provide further guidance on situations where “5 out of the 6 criteria” are met except for the provision of public services. Treasury will review this request and provide further clarification if required. However, this should not prevent agencies from completing their initial assessment of whether an arrangement constitutes a service concession arrangement under AASB 1059. Treasury directs agencies to continue applying the requirements of paragraphs 2 and 5 in conjunction with paragraphs B6 to B10.

Operator manages at least some of the public services

The hypothetical examples below illustrate the key principles specified in paragraph B10 of AASB 1059:

<table>
<thead>
<tr>
<th>Example</th>
<th>Assessment</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operator constructs school buildings and provides, under its own discretion, facilities management, cleaning and security services.</td>
<td>Public services provided by the school are primarily education services. The operator’s maintenance services do not represent a significant component of the public services provided by the school. Instead the maintenance services represent a service outsourcing arrangement to enable the grantor to provide public services (education) through the school.</td>
<td>Arrangement is unlikely to be a service concession arrangement under AASB 1059. However, the agency would instead account for this arrangement under other applicable accounting standards, such as AASB 116.</td>
</tr>
<tr>
<td>Operator constructs hospital building and provides, under its own discretion, facilities management, cleaning and security services, along with hospital staff scheduling services.</td>
<td>Public services provided by the hospital are primarily health care services. The operator’s scheduling of hospital staff (who are employed by the government) is likely a sufficient indicator that the operator is managing at least some of the public services provided by the hospital.</td>
<td>Arrangement is likely a service concession arrangement</td>
</tr>
</tbody>
</table>
Example | Assessment | Conclusion
--- | --- | ---
Operator builds a toll road, collects tolls, and provides road maintenance services under its own discretion. | A road provides public services (i.e. transport) largely by itself as long as it is properly maintained. Therefore, the operator’s maintenance services contribute significantly to the public services provided by the road. | Arrangement is likely a service concession arrangement

### Control

The public sector grantor controls the service concession asset if and only if:

- a) the grantor controls or regulates
  - i. what services the operator must provide with the asset,
  - ii. to whom it must provide them, and
  - iii. at what price; and

- b) the grantor controls - through ownership, beneficial entitlement or otherwise — any significant residual interest in the asset at the end of the term of the arrangement.

The grantor can also demonstrate control of the services to be provided with the asset, to whom and/or at what price where those aspects are regulated by a third party regulator. In this case, the services/ recipients/ price is considered to be set implicitly by the grantor. The contract between the grantor and the operator need not specifically refer to the regulator or regulation.

Agencies should note if the arrangement is not a service concession arrangement or the agency does not control the asset under AASB 1059, the agency must consider if other accounting standards apply to the arrangement (e.g. AASB 116, AASB 16 or AASB 9).

### 1.4.4.4 Accounting for service concession arrangements under AASB 1059

#### Service concession asset

Where the arrangement is a service concession arrangement and the grantor controls the service concession asset, the asset is recognised on balance sheet at current replacement cost. An existing asset of the agency that meets these conditions is to be reclassified as a service concession asset, and its carrying amount is adjusted to current replacement cost as a revaluation.

Subsequently, the asset is depreciated in accordance with AASB 116. If the asset’s class is required to be measured at fair value by NCAP 1 (most likely), the valuation must be based on current replacement cost.

#### Liability

Agencies will also recognise a liability at the same time as recognising the service concession asset. The liability is initially measured at the same amount as the asset, adjusted for any other consideration exchanged between the grantor and the operator.

The nature of the liability depends on how the operator is compensated. In a service concession arrangement, the grantor usually compensates the operator by any combination of:

- making payments to the operator,
granting the operator the right to charge third party users for use of the asset (e.g. a toll road),

granting the operator access to another revenue-generating asset for the operator’s use (e.g. a private wing of a hospital)

Where the agency is obliged to make future payments to the operator, it recognises a financial liability. The future payments must first be allocated to payments relating to the liability (capital component) and payments for services to be provided by the operator (operating component). Agencies must then calculate a discount rate that discounts the future ‘capital’ payments to the pre-determined liability amount. Subsequently the financial liability is measured in accordance with AASB 9.

Where the agency grants the operator a right to charge third party users or to access another revenue-generating asset, it recognises an unearned revenue liability. Revenue is recognised throughout the term of the arrangement according to the economic substance of the arrangement. In practice, a straight-line method is often appropriate.

If the agency both makes future payments and grants a right to the operator, it would need to calculate the financial liability portion first by discounting future payments using the contractually specified interest rate or otherwise a prevailing market rate. The remaining portion of the liability is recognised as unearned revenue.

Lifecycle payments

Lifecycle payments refer to payments agreed upfront for renewals and replacements that are undertaken by the operator in a PPP throughout the life of the arrangement. Where the PPP arrangement falls within the scope of AASB 1059, the examples in the standard illustrate how to account for lifecycle payments.

1. Financial liability model (AASB 1059 Example 6)

   • Future replacements are incorporated into the calculation of the liability at commencement of the arrangement. This results in a lower discount rate and less interest expense being incurred over the life of the arrangement.

   • When the replacement happens, the service concession asset and financial liability are both increased by the original estimate of the fair value (CRC) of the replacement.

2. Grant of Rights to Operator (GORTO) model (AASB 1059 Example 7)

   • Future replacements are not incorporated into initial revenue recognition calculations (this differs from IPSAS 32 Example 2).

   • Instead, as each replacement occurs, the service concession asset and unearned revenue liability are increased by the fair value (CRC) of the replacement. This liability is then recognised as revenue over the remaining term of the arrangement, even if the replacement component’s useful life is different. Essentially, each replacement is treated like a new SCA that lasts for the remaining term of the arrangement.

   • The amount of revenue recognised each year increases with each subsequent replacement, thus resulting in more revenue being recognised towards the end of the PPP.