INTRODUCTION

Policy items, indicated by shaded bold print, form the Minimum Reporting Requirements (MRRs) referred to in sections 42(1) and 43(1) of the Financial and Performance Management Standard 2009 (FPMS). These are mandatory for departments. Statutory bodies must also have regard to these requirements and apply them where they are considered relevant in the circumstances.

Application guidance, indicated by normal text under the “Application Guidance sub-headings”, provides support on interpreting and applying the mandatory policy items and other matters.
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3B.1 CONTRIBUTIONS REVENUE FOR NOT-FOR-PROFIT ENTITIES

REFERENCES
- AASB 1004 Contributions
- AASB 117 Leases
- FRR 3E Distinction between Grants and Procurement (Revenue and Expense)

APPLICATION GUIDANCE

AASB 1004 defines ‘contributions’ as “a non-reciprocal transfer in which an entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party or parties to the transfer.”

AASB 1004 distinguishes between reciprocal transfers of assets where approximately equal value is exchanged in the transfer between the transferor and transferee and non-reciprocal transfers where equal value is not exchanged.

FRR 3E Distinction between Grants and Procurement (Revenue and Expense) provides extensive guidance on distinguishing between reciprocal and non-reciprocal transfers and where revenue items are a ‘contribution’ (as per the above definition).

For-profit entities are excluded from the application of AASB 1004. FRR 3B.4 discusses grant revenue recognition requirements applicable to for-profit agencies.

‘Contributions’, received by departments can take three forms:
- involuntary transfers e.g. rates, taxes and fines;
- voluntary transfers e.g. grants and donations; and
- parliamentary appropriations other than those that give rise to a liability or that are in the nature of contribution by owners.

AASB 1004 requires ‘contributions’ be:
- recognised as income in the period received, subject to the recognition criteria being met; and
- shown on the Statement of Financial Position as a liability only in the event of an obligation arising to return all or part of the contribution to the transferor thereby giving rise to a liability.
Contributions are to be recognised as income when the agency obtains control of them. In the Queensland public sector, ‘control’ is generally established when the ‘contribution’ is received.

Restrictions and/or conditions (including the requirement to meet defined key performance indicators or milestones) imposed by the transferor on the use of the ‘contribution’ by the agency, do not, of themselves, trigger or result in the creation, for the agency, of a present obligation to sacrifice future economic benefits to the transferor.

This is the case, even though the agency has a fiduciary responsibility to use the ‘contribution’ effectively and efficiently in pursuing its objectives. In turn, this fiduciary responsibility also does not, of itself, create a present obligation to make sacrifices of future economic benefits to either the transferor or any third party. Accordingly, the mere receipt of a ‘contribution’ will not, in most instances, give rise to a liability.

**Example**

The inclusion of conditions such as one that requires the return of monies if a breach of condition occurs, or one that requires all unspent monies to be returned, is not sufficient to argue that an agency does not control the contribution at the time of receipt or that there is a present obligation to return the funds thereby giving rise to a liability.

When the recipient of a contribution fails to meet any specific conditions attached to the transfer, it is only once an obligation to return the monies has been determined and is being enforced by the transferor that a liability for the amount payable is recognised.

If a recipient is required to repay part or all of a contribution because they fail to meet specific conditions, a **liability** and an **expense** would need to be recognised for the amount repayable in accordance with paragraph 26 of AASB 1004. The liability will need to be recognised at the time when the recipient believes it is probable that an amount will need to be repaid, the amount can be reliably measured and there is appropriate evidence to support this assessment.
Improvements by the Lessor to Assets Leased by Agencies

Accounting for leased assets must be consistent with the requirements of AASB 117. Improvements by the lessor to an asset acquired by an agency under a finance lease may or may not result in an increase in the obligation to make future lease payments. If such an increase does occur, a credit entry would have to be made to the account which records the liability to make future lease payments.

If an increase in the obligation does not occur, the improvement would be accounted for as a contribution in the lessee’s books under AASB 1004, as the lessee has received a benefit (on improvement to the asset) but is not required to provide approximately equal value in exchange for the leasehold improvements.

3B.2 APPROPRIATION REVENUE FOR GOVERNMENT DEPARTMENTS

REFERENCES

- Financial Accountability Act 2009 (FA Act) (Part 3)
- AASB 1004 Contributions

POLICY

- The amount of appropriation revenue recognised by a department in a financial year is a matter for the determination of the agency, taking into account the cost of the departmental services which it has delivered during the year.

- Unless otherwise negotiated with Queensland Treasury, appropriation revenue should equal the cash appropriations received by the department during the year in accordance with its funding profile.

- In the rare instance of a department intending to recognise appropriation revenue receivable or a liability for unspent appropriation revenue at 30 June, any such amount must be negotiated with and agreed by Queensland Treasury.
• If it is agreed with Treasury that a department may recognise a liability at year end, an expense must be recognised for that amount in the financial statements of the agency under AASB 1004 (paragraph 26) even though this amount is adjusted against appropriation revenue in Tridata.

• A reconciliation of payments made from Consolidated Fund to appropriation revenue recognised in the Statement of Comprehensive Income must be provided as a note to the financial statements. The required line items for the reconciliation are as outlined in the corresponding model financial statements.

• Transfers of appropriations and appropriations for unforeseen expenditures must be supported by appropriate Treasurer/Governor in Council approvals. Note disclosure is also required for the reasons for any material amounts of unforeseen expenditure.

APPLICATION GUIDANCE

Appropriation revenue, plus own sourced income, should closely equate to total expenses for the year, resulting in a net operating result for the year that is close to zero.

Payments by departments on behalf of the state (sometimes transfer payments) are funded from the Consolidated Fund by way of administered appropriations. Departments should refer to FRR 2E Controlled and Administered Items, Trust Transactions and Agency Arrangements when accounting for administered appropriation revenue.

Statutory bodies do not receive appropriations under the FA Act. Generally, any funding from Government to statutory bodies is by way of grants which are accounted for pursuant to AASB 1004 if the entity is classified as not-for-profit. AASB 120 Accounting for Government Grants and Disclosure of Government Assistance applies where the entity is classified as a for-profit entity and is dealt with separately in this FRR.
**Appropriated Equity Adjustments**

Under the FA Act, the owners’ interest in a department can be adjusted directly against equity through appropriated equity injections/withdrawals. Such appropriated equity adjustments are determined by the owners of Queensland’s wholly-owned public sector entities. The annual Appropriation Bills represent the formal designation required under Interpretation 1038. FRR 4F Equity, Contributions by Owners and Distributions to Owners deals with the accounting requirements for appropriated equity adjustments.

**End of Financial Year Receivables and Payables**

In relation to any unspent appropriation at year end, s.37(3) of the *Financial Accountability Act 2009* allows departments to return these funds to the Consolidated Fund prior to 14 July of each year, and be recognised in the previous year’s appropriation revenue. However, current Treasury policy is to ensure funds are returned prior to 30 June each year so no back-dating is required.

After 30 June, as part of the year end accruals process and where it is agreed with Treasury, a department may recognise an asset (appropriation revenue receivable) or a liability (appropriation revenue unspent at year end and payable to the Consolidated Fund) at 30 June.

Where there is both a receivable and a payable from/to the Consolidated Fund regarding multiple factors, it is appropriate to offset those amounts as either a net receivable or net payable.

In the following year, there are two options to extinguish the liability:

1. Return the cash to the Consolidated Fund
2. Retain the cash

In instances where Treasury allows departments to keep the cash, either of the following will take place in that negotiation:
• there is a reduction in the cash appropriation paid in that year – this will have no impact on appropriation revenue for the year but will impact on the cash appropriation in the Statement of Cash Flows; or

• there is a replacement of an obligation to return cash to Consolidated Fund with another obligation e.g. to provide services. This will require the accrual to be reversed, resulting in a negative expense.

**Example – Journals involved for each option**

A department agrees with Treasury that $100 of its unspent appropriation for services at year end will be returned to the Consolidated Fund (CF) the following year. In practice, the department has two options to settle this obligation (i.e. liability) in the following year.

**Journals in the Current Year**

<table>
<thead>
<tr>
<th>DR</th>
<th>Deferred Appropriation Payable to CF (Expense)</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>Deferred Appropriation Payable to CF (Payable)</td>
<td>100</td>
</tr>
</tbody>
</table>

(Representing the unspent appropriation as negotiated with Treasury during the formal year end appropriation reconciliation process)

**Journals in Next Year**

**Option 1 – Return cash to CF**

<table>
<thead>
<tr>
<th>DR</th>
<th>Deferred Appropriation Payable to CF (Payable)</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>Cash</td>
<td>100</td>
</tr>
</tbody>
</table>

(Representing the settlement of the obligation by returning the funds to CF)

**Option 2 – Retain cash – replace obligation to pay cash with another obligation**

<table>
<thead>
<tr>
<th>DR</th>
<th>Deferred Appropriation Payable to CF (Payable)</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>Deferred Appropriation Payable to CF (Expense)</td>
<td>100</td>
</tr>
</tbody>
</table>

(Representing the settlement of the obligation by replacement with another obligation. The accrual is reversed, resulting in a credit to the expense account.)
3B.3 CONTRIBUTION OF SERVICES BETWEEN AGENCIES

REFERENCES
- AASB 1004 Contributions
- FRR 3E Distinction between Grants and Procurement (Revenue and Expense)

POLICY

- Where an agency receives material corporate services or other support from another agency that can be reliably measured, the fair value of those services is to be recognised as revenue with a corresponding expense.

- Where the fair value of those services is not recognised, the recipient agency is to include narrative disclosure about the nature and extent of the arrangement, and the grounds for not recognising the revenue/expense.

APPLICATION GUIDANCE

Contributed Services

Some services donated to an agency e.g. volunteer work, while useful, may not be central to the delivery of the agency's core services. Subject to materiality, contributed services should therefore be recognised only when their fair value can be measured reliably and the services would have been purchased had they not been donated.

Generally, the control of the future economic benefits embodied in contributed services takes place in conjunction with the actual consumption of such benefits. In these circumstances, the appropriate accounting treatment is to recognise revenue and an equal expense.

It is common in the public sector for services to be received/provided at less than their fair value e.g. corporate services partnerships where an agency provides
corporate services (such as information technology, human resources, finance, etc.) to one or more other agencies at no cost. In respect of corporate services received, it is expected that the recipient agencies would otherwise have had to acquire such services in other ways.

In such situations, the provider agency should have a process for reliably determining and advising of the cost (as a surrogate for fair value) of services provided to other agencies, especially where the amounts are likely to be material for any of the recipient agencies.

3B.4 GRANT REVENUE RECOGNITION BY ‘FOR-PROFIT’ ENTITIES

REFERENCES

- AASB 120 Accounting for Government Grants and Disclosure of Government Assistance
- Interpretation 110 Government Assistance – No Specific Relation to Operating Activities

POLICY

- Government grants must be shown on the Statement of Financial Position as deferred income which will be matched against future costs on a systematic basis. Grant revenue is to be recognised as income and is not to be offset against the related expense (an alternative treatment under AASB 120).

- AASB 120 provides for recognition of granted non-monetary assets at nominal values as an alternative to the fair value method. This alternative treatment of nominal value is not considered best practice and is NOT to be applied.

- Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position by setting up the grant as deferred income, which is recognised as income on a systematic and rational basis over the useful life of the asset. The treatment of deducting the grant from the carrying amount of the related asset is not considered best practice and is NOT to be applied.
APPLICATION GUIDANCE

For-profit entities recognise income from government grants as required by the recognition criteria of AASB 120.

Government grants to for-profit entities are generally accounted for on an accrual basis i.e. they are to be brought to account when they are receivable which may be at a different time from the receipt of cash.

The cash basis of accounting may be used if no basis exists for allocating grants to periods other than the one in which it was received. Such a circumstance would be unusual.

Under paragraph 10A of AASB 120, the benefit received by a for-profit entity from a government loan at a below-market rate of interest shall be treated as government grant and is measured as the difference between the fair value of the loan and the proceeds received.

AASB 120 specifies the treatment for when a government grant becomes repayable. AASB 120 also identifies government assistance that is excluded from the definition of government grants because such assistance cannot reasonably have a value placed on it e.g. government assistance in the form of free technical or marketing advice. Reference should be made to paragraphs 34-38 of AASB 120.

The standard also distinguishes between government assistance provided to an entity and assistance provided to the community generally e.g. infrastructure. Examples are provided in paragraph 38 of AASB 120.

Interpretation 110 clarifies that government assistance provided to an entity for operating in certain regions or industry sectors is a government grant and is to be accounted for in terms of AASB 120.
3B.5 USER CHARGES AND FEES

REFERENCES

- AASB 118 Revenue
- FPMS (s.17)

POLICY

- Fees and charges fixed by the accountable officer pursuant to s.17(1)(b) of the FPMS, or other legislation, for goods and services supplied by the department should be recognised as controlled revenue.

- If the amount levied by the department is not a fee or charge fixed by the accountable officer pursuant to s.17(1)(b) of the FPMS, or other legislation, for goods and services supplied by the department, it should be recognised as administered revenue and the amounts received remitted to the Consolidated Fund.

APPLICATION GUIDANCE

Taxes, Fines and Penalties

The timing of the recognition of income from these sources is dependent on their nature. Normally, income should be recognised when a notice of assessment is issued and a legal obligation for payment exists.
3B.6 GAINS RECOGNISABLE IN OTHER INCOME ON DERECOGNITION OF NON-FINANCIAL ASSETS

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- AASB 116 *Property, Plant and Equipment*
- AASB 138 *Intangible Assets*
- AASB 140 *Investment Property*
- Non-Current Asset Policy (NCAP) 6 Disposal of Non-Current Assets

POLICY

- Net gains on derecognition of assets must be reported as income. Net losses on derecognition of assets must be reported as an expense.

- For the purposes of recognition in the Statement of Comprehensive Income, the net gain/loss is to be determined separately for:
  - Property, plant and equipment;
  - Investment property; and
  - Intangibles.

APPLICATION GUIDANCE

The definition of income encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of the agency. Gains represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an agency.

Gains are to be reported separately from revenue in the Statement of Comprehensive Income.

Refer to NCAP 6 and AASB 138 for further information.