



# QUEENSLAND TREASURY

## 2022-23 FINANCIAL REPORTING REQUIREMENTS FOR QUEENSLAND GOVERNMENT AGENCIES

### FRR 3B Income

#### INTRODUCTION

*Policy items*, indicated by **shaded bold print**, form the Minimum Reporting Requirements (MRRs).

Pursuant to sections 38(2) and 39(2) of the *Financial and Performance Management Standard 2019* (FPMS), departments and statutory bodies must prepare their financial statements in accordance with the MRRs. All of the MRRs are mandatory for departments. Statutory bodies comply with the FPMS by applying the parts of the MRRs that are considered relevant to their 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 INCOME OF NOT-FOR-PROFIT ENTITIES – GENERAL PRINCIPLES

#### REFERENCES

- AASB 1058 *Income of Not-for-Profit Entities*
- AASB 15 *Revenue from Contracts with Customers*
- FRR 3E Distinction between Grants and Procurement
- FPMS (s.13)

#### POLICY

- **Fees and charges fixed by the accountable officer pursuant to s.13(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.13(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

### **Overview of income recognition for not-for-profit agencies**

The following table summarises the accounting standards that will typically apply to the different types of income commonly received by not-for-profit agencies.

Income line item	Applicable standard/s
Appropriation revenue	AASB 1058
User charges and fees	Revenue from contracts with customers – AASB 15 Licence revenue – AASB 15 Rental income from operating leases – AASB 16 Others – AASB 1058
Royalties and land rents	Licence revenue – AASB 15 Others – AASB 1058
Taxes	AASB 1058
Grants and contributions	Revenue from contracts with customers – AASB 15 Others – AASB 1058
Interest income	Interest income from financial assets – AASB 9 Interest income from finance leases – AASB 16
Gains on disposal or revaluation of assets	Property, plant and equipment – AASB 116 Intangible assets – AASB 138 Financial instruments – AASB 9 Foreign currency – AASB 121 Investment property – AASB 140 Biological assets – AASB 141

The remainder of FRR 3B.1 will address accounting for income within the scope of AASB 1058. Agencies should refer to the other sections of FRR 3B for guidance on specific types of income, including FRR 3B.5 on transactions falling within AASB 15.

### **Transactions within the scope of AASB 1058**

AASB 1058 establishes the framework for income recognition where a not-for-profit agency acquires an asset for significantly less than fair value principally to enable the entity to further its objectives.

### **“Significantly less than fair value” principle under AASB 1058**

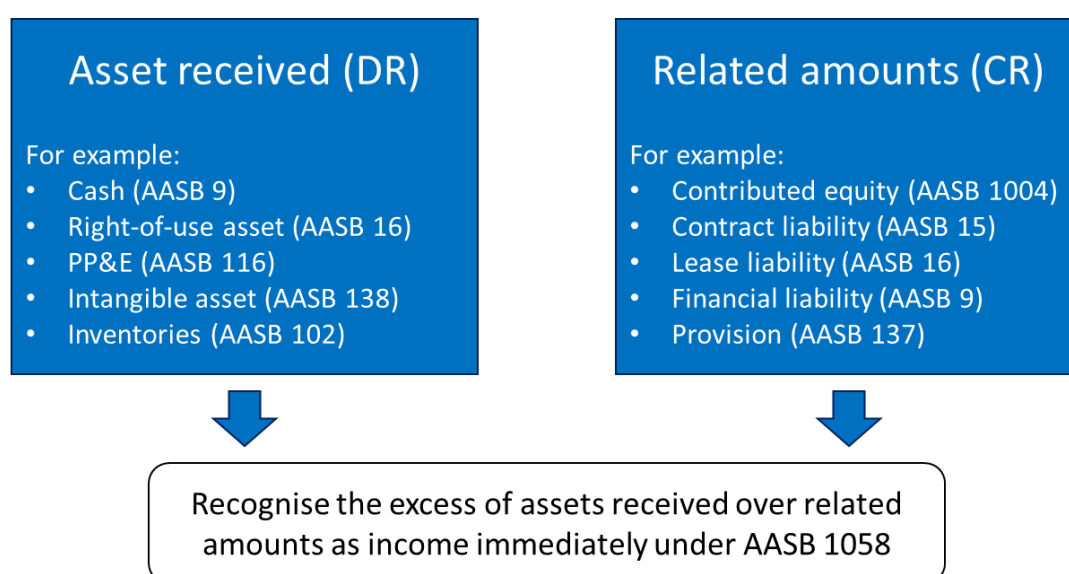
The standard does not specify what constitutes “significantly less than fair value” and this requires the exercise of judgement in each circumstance. However, where the consideration to acquire an asset represents less than 70% of the asset’s fair value (i.e. a 30% or greater

discount), the “significantly less than fair value” criteria would ordinarily be met unless there is compelling evidence to the contrary.

### **Revenue recognition under AASB 1058**

AASB 1058 contains specific requirements in respect of capital grants and volunteer services, which are discussed separately below. All other transactions within the scope of AASB 1058 use the revenue recognition model in paragraphs 8 to 14.

The difference between the asset/s received and any credit amounts recognised under other standards (called ‘related amounts’) is recognised as income immediately. This is illustrated in the following diagram. (N.B. Related amounts can be nil in some transactions.)



### **Taxes, fines and penalties**

AASB 9 Financial Instruments applies to the initial recognition and measurement of statutory receivables, with Appendix C of AASB 9 providing implementation guidance in this respect.

A statutory receivable under AASB 9, and corresponding revenue under AASB 1058, is recognised on the occurrence of the ‘taxable event’. Refer to AASB 9 Appendix C and FRR 4E for more details.

Where a tax is prepaid, i.e. prior to the taxable event occurring, the agency should assess whether it has a refund obligation and if so, recognise a financial liability as a related amount. The refund obligation is extinguished and revenue is recognised when the taxable event occurs. See AASB 1058 Illustrative Example 4.

## 3B.2 APPROPRIATION REVENUE-GOVERNMENT DEPARTMENTS

### REFERENCES

- *Financial Accountability Act 2009* (FA Act) (Part 3)
- *AASB 1058 Income of Not-for-Profit Entities*

### 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.**
- **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.

**Appropriations not received by statutory bodies**

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 15 or AASB 1058 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 owner's 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 – unspent appropriations**

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 (for 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, the liability payable to Treasury is extinguished one of three ways:

*Option 1.* The department returns the cash to the Consolidated Fund (where there are no other appropriation receipts against which the payable can be offset); or

*Option 2.* Treasury permits the liability payable to be offset against subsequent appropriation made to the department (i.e. there is a net settlement of the liability payable against future cash appropriation receipts); or

*Option 3.* The unspent appropriation payable to Treasury is authorised to be applied as appropriation revenue in the following year.

**Example – Journals involved for each option**

A department agrees with Treasury that \$100 of its unspent (or unapplied) appropriation for services at year end will be returned to the Consolidated Fund (CF) the following year. In practice, the department has three options to settle this obligation (i.e. liability) in the following year. (Additional information - The department is to receive appropriation funding of \$700 in the first month of the following year (that relates to the following year).

Journals in the Current Year

DR	Deferred Appropriation Payable to CF ( <b>Appropriation Revenue</b> )	100	
	CR	Deferred Appropriation Payable to CF ( <b>Payable</b> )	100

*(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**

DR	Deferred Appropriation Payable to CF ( <b>Payable</b> )	100	
	CR	Cash	100

*(Representing the settlement of the obligation by returning the funds to CF - where there are no other appropriation receipts against which the payable can be offset).*

**Option 2 – Net settlement against subsequent appropriation receipts**

DR	Deferred Appropriation Payable to CF ( <b>Payable</b> )	100	
DR	Cash		600
CR	Appropriation Revenue	700	

*(Representing the net settlement of the obligation to repay Treasury against the cash appropriation receipts in the following year. Under Option 2, the appropriation revenue recognised in respect of the following year's income is unaffected by the net settlement of the liability.)*

**Option 3 – Approval for recognition as revenue in the following year**

DR	Deferred Appropriation Payable to CF ( <b>Payable</b> )	100	
CR	Deferred Appropriation Payable to CF ( <b>Appropriation Revenue</b> )	100	

*(The unspent appropriation payable to Treasury is authorised to be applied as appropriation revenue in the following year – this journal assumes the cash has not already been physically returned to CF under Options 1 or 2 above. Where this has occurred, the debit entry would be to cash and the credit to appropriation revenue.*

### 3B.3 VOLUNTEER SERVICES AND CONTRIBUTION OF SERVICES BETWEEN AGENCIES

#### REFERENCES

- AASB 1058 *Income of Not-for-Profit Entities*

#### POLICY

- **Not-for-profit departments and statutory bodies within whole-of-government are required to recognise volunteer services in accordance with AASB 1058 paragraph 18.**
- **Agencies shall not recognise volunteer services that would not have been purchased if they had not been donated.**
- **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, that recipient agency is to include narrative disclosure about the nature and extent of the arrangement, and the grounds for not recognising the revenue/expense.**
- **An agency that provides volunteer/contributed services shall not recognise any revenue in respect of the volunteer/contributed services provided.**

#### APPLICATION GUIDANCE

##### **Volunteer services**

Volunteer services that are required to be recognised would typically be recognised as income and an expense, or an asset if the expense qualifies for capitalisation.

##### **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.

### **Accounting by the provider agency**

An agency that provides volunteer or contributed services does not recognise any revenue because there is no basis for any revenue recognition. The agency should only recognise the expenses incurred to provide the service.

For example: Agency A provides IT services to Entity B free of charge. Agency A would recognise employee expenses relating to its IT staff who are providing the services, and depreciation/amortisation expense on equipment and software used to provide the services. Agency A does not recognise any revenue or any additional expenses. In addition, Agency A's accounting is not affected by whether the fair value of the services can be measured reliably or whether Entity B would have purchased the services had they not been donated.

## 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, which also outlines the treatment for when a government grant becomes repayable.

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 ordinarily 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.

**Distinction between government assistance to the community versus a specific entity**

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.

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.

## **3B.5 REVENUE FROM CONTRACTS WITH CUSTOMERS**

### **REFERENCES**

- AASB 15 *Revenue from Contracts with Customers*

### **POLICY**

- **Agencies shall NOT apply the recognition exemptions for short-term and low value licences described in AASB 15 paragraphs Aus8.1–Aus8.5. Instead, agencies are to identify performance obligations and recognise revenue as/when the performance obligations are satisfied, in line with AASB 15's revenue recognition model.**

## APPLICATION GUIDANCE

### **Applicability of AASB 15 to transactions of NFP agencies and Appendix F**

Not-for-profit agencies must apply the implementation guidance in AASB 15 Appendix F *“Australian implementation guidance for not-for-profit entities”* to determine whether a transaction gives rise to revenue from contracts with customers. This guidance is particularly relevant when assessing grants and contributions received, as some transactions will fall within the scope of AASB 15 and others within the scope of AASB 1058.

### **Scope of AASB 15**

To fall within the scope of AASB 15:

1. There must be a promise to transfer goods or services to a customer;
2. The agreement must create enforceable rights and obligations; and
3. The promise/s must be sufficiently specific to be able to determine when the performance obligation is satisfied.

### **1. 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. A customer can direct the entity to provide goods or services to third parties on the customer’s behalf, so the goods or services need not be provided directly to the paying entity/person for there to be a contract with a customer.

Grant arrangements where the agency retains the output of the activities (e.g. a constructed asset) for its own use will be outside the scope of AASB 15 as they do not involve a transfer of goods or services to a customer.

Goods and services are assets that embody benefits, even if only momentarily (as is in the case of many services). Some statutory fees create legislative obligations for the levying agency to carry out activities that are solely for the benefit of the general public, and not for the entity/person paying the fee. These fees do not involve a transfer of goods or services to the customer.

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 solely limited to the transfer (or ‘pass through’) of cash between other parties. Agencies should carefully examine such arrangements as the transaction may not involve recognition of any revenue under AASB 15 or AASB 1058 – instead, the agency may have a financial liability under AASB 9 for monies to be passed on or, in the case of a department, an Administered transaction to account for.

Further information on the pass-through of grants and accounting for Administered items is contained in FRR 2E.1.

## **2. Enforceable agreement**

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

The following specific types of revenue are not enforceable, and therefore are outside the scope of AASB 15:

- Taxes and fines do not create obligations enforceable against the levying agency by legal or equivalent means, even where they are raised in respect of specific goods or services.
- The system of appropriations in Queensland does not create enforceable obligations for departments in respect of appropriations received.
- An agreement is often enforceable where there is a requirement to refund grant monies if they had not been spent on specified performance obligations. However, a requirement to refund monies that are not spent within a specified time period does not, by itself, give rise to an enforceable agreement.

Example: Under a multi-year grant agreement, the grantor may choose to reduce future funding to the agency instead of requesting a refund. In this situation, there'd be an enforceable agreement if the grantor can reduce future funding to which the agency is presently entitled - effectively the grantor is settling the refund obligation on a 'net' basis. However, the grantor withholding future funding to which the agency is not presently entitled does not demonstrate enforceability.

It is not relevant that the grantor has historically not enforced similar agreements (e.g. they've not asked for refunds), as enforceability is assessed on the grantor's capacity and rights to enforce.

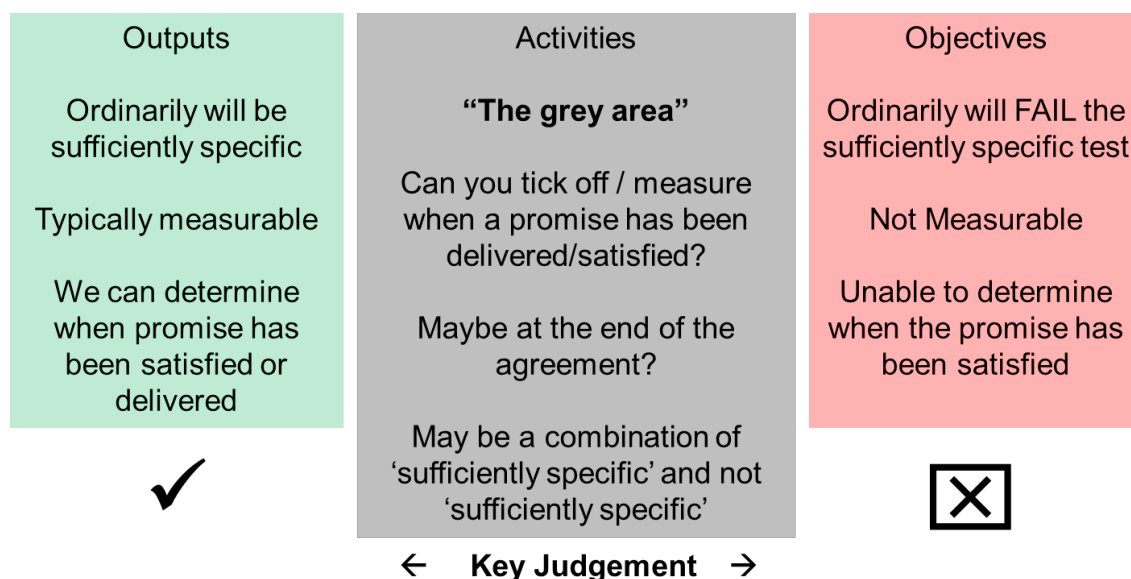
An agreement may be partially enforceable, for example, if only a portion of the grant is subject to refund if specified activities are not performed. In this case, the agency may need to recognise a contract liability under AASB 15 for the enforceable portion, and income under AASB 1058 for the non-enforceable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

### **3. Sufficiently specific performance obligations**

For promises to be sufficiently specific performance obligations, the agency must be able to determine (i.e. measure) when, or to what extent, the obligation is satisfied (i.e. completed or the percentage of completion) at any point in time. This is essential in providing the basis for revenue recognition under AASB 15. In addition, the goods or services to be provided must be specified or quantifiable and not be at the discretion of the agency. In making this assessment, agencies must apply judgement, including taking into account any conditions specified in the contract 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

Agencies may find it useful to classify deliverables or promises in an agreement into three categories as illustrated below.



*Outputs*, (for example, the delivery of 1000 park shelters), are normally straightforward to measure and will typically meet the sufficiently specific criteria (unless the agency has no way of measuring when the promise has been satisfied or delivered, in which case the test would be failed). On the other hand, general, high level *objectives* or aspirational targets (for example, "improving literacy rates"), will typically fail the test.

Judgement will often be required when the promise is in the form of *activities* (for example, conducting a childhood vaccination program). Identifying whether activities are measurable may be straightforward or difficult in practice. To be sufficiently specific, agencies must be

able to reliably measure at any point in time their progress in fulfilling the promise/s embodied in those activities to the customer.

### **Agreements with mixed activities, outputs and objectives**

An agreement or program can sometimes contain a mixture of sufficiently specific activities and other more general activities that do not meet the sufficiently specific criteria. It may be necessary to first 'unbundle' a program of activities into the measurable outputs and general objectives to identify those activities that do not fit neatly into either category. The remaining activities comprising the program would then be considered as to whether they are measurable and have, on balance, sufficiently specific characteristics that would meet the AASB 15 requirements. Activities for which the percentage of completion (or fulfillment of the promise) cannot be reliably measured are expected to fail the sufficiently specific requirement.

### **Acquittal procedures and milestone reporting**

The agreement may require an acquittal process for the recipient to demonstrate progress towards transferring the goods or services. Periodic progress reporting may assist agencies with measuring its progress towards satisfying performance obligations (i.e. it may provide evidence that the promise to transfer goods/services is sufficiently specific), however such reporting obligations themselves are not considered separate performance obligations.

### **General obligations to spend money**

An obligation to 'spend money' alone does not constitute a performance obligation, since AASB 15 is about the goods or services the agency is required to transfer to a customer in return for the funding received. Agencies should refer to illustrative examples in AASB 1058 (Examples 3, 6, 7 & 8) and AASB 15 (Australian Examples 2 to 5) for examples of agreements that do and do not contain sufficiently specific performance obligations.

### **AASB 15's five-step revenue recognition model**

In applying the five-step model in AASB 15, agencies should refer to Appendix F of AASB 15 "Australian implementation guidance for not-for-profit entities". Some of the key common judgements and considerations that agencies may encounter in each of the five steps are provided in the following table.

Step	Key judgements and considerations
Step 1 – Identify the contract with a customer	<p>This step is <u>not required for licence revenue</u> as they are <u>automatically in scope</u> (para. Aus5.2). Agencies should apply the licence versus tax assessment instead (para. G3)</p> <p>Appropriations, taxes and fines are not enforceable and are out of scope of AASB 15.</p> <p>Should two or more related contracts be accounted for as a single contract for the purposes of AASB 15? (para.17)</p> <p>When a contract is modified, consider the guidance on contract modifications below. (para.18-21)</p>
Step 2 – Identify performance obligations	<p>Where the agency provides multiple goods or services under the contract:</p> <p>Is each good or service distinct or should they be combined with other goods or services to form a distinct bundle of goods or services? (para.27-30)</p> <p>Does each distinct good or service form a single performance obligation? (para.22-23)</p> <p>For each performance obligation, is the agency acting as principal or agent? (para. B34-B38)</p>
Step 3 – Determine the transaction price	<p>Have you adjusted the transaction price for expected refunds? (para.55, B20-B27)</p> <p>Is it highly probable that a significant reversal in the amount of revenue will not occur? (para.56)</p> <p>Where there is a greater than 12 months timing difference between payment and transfer of goods or services, consider whether you need to adjust the transaction price for the financing component. (para. 60-65)</p> <p>Did you receive any non-cash consideration for the goods or services? (para. 66-69)</p>

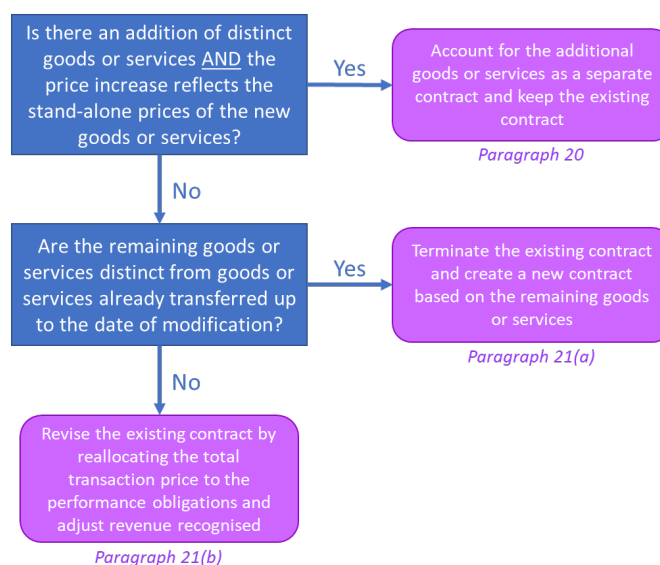


Step	Key judgements and considerations
Step 4 – Allocate transaction price to performance obligations	<p>Where more than one performance obligation is identified in Step 2:</p> <p>How will you determine the stand-alone selling prices of each distinct good or service? (para. 76-80)</p> <p>Do any variable consideration relate to the entire contract or only to specific performance obligations? (para. 84-86)</p>
Step 5 – Recognise revenue when/as the entity satisfies each performance obligation	<p>What is the good or service you are transferring?</p> <p>Is control of the good or service transferred over time or at a point in time? – Apply the criteria in para. 35 and consider the indicators of transfer of control in para. 38 (para. B2-B13)</p> <p>Where a performance obligation is satisfied over time, how will you measure progress? (para. 39-43, B14-B19)</p> <p>Will you use an output method or an input method?</p> <p>Output methods should be used where possible without undue cost</p>

Note that the timing of revenue recognition under AASB 15 may not coincide with the timing of expenses incurred. Agencies are NOT to assume that, just because a transaction falls under AASB 15, they will be able to achieve matching of revenue and expenses.

### **Contract modifications**

When a contract with a customer is modified in terms of the scope, the price, or both, the appropriate accounting treatment is determined in accordance with AASB 15 paragraphs 20-21, which is summarised in the flowchart as indicated.



**Licences revenue (AASB 15 Appendix G)**

Accounting for revenue from licences issued by not-for-profit public sector entities, (for example, driver's licences, blue cards, casino licences, etc.) are within the scope of AASB 15, irrespective of whether the licences are contracts with customers.

Licence revenue is recognised by applying the 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.

(a) *Difference between a licence vs a tax*

One of the differences between licences and taxes 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 can be fined but they cannot be compelled to retrospectively obtain a licence and pay a licence fee. The entity may not in fact be eligible to obtain a casino licence.
- Gaming tax – If an entity earns gaming income and does not pay the tax, they can be compelled to pay the tax plus any interest or penalties owed.

(b) *Identifying performance obligations in licences*

In relation to licences, the following are not performance obligations:

- 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/monitoring activities 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.

(c) *Licence fees that are refundable if the licensee cancels their licence*

Some licences fees 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 revenue recognition over the licence period. Agencies should instead apply paragraph 55 of AASB 15 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 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 adjustments taken to revenue.

In rare circumstances where an agency cannot reliably estimate the expected refunds, for example for a new type of licence, the full 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.

(d) *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.

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 licensing arrangement with the licensee, it is ordinarily considered a tax and is accounted for separately from the licence fee. Taxes are 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), agencies should only recognise revenue/receivable when the activities are conducted. This is because, prior to the activities occurring, the agency does not ordinarily control a receivable asset as it is dependent on future performance of the licensee (i.e. the 'past event' has not yet occurred).

(e) *Fees charged for licence eligibility assessments*

Fees paid by prospective licensees to demonstrate to the agency or for the agency to assess whether they are eligible to obtain a licence are not licence revenue, because they do not directly give the prospective licensee a right to perform an activity or access an asset.

Agencies should apply the standard AASB 15 scope criteria to assess whether these fees are revenue from contracts with customers or AASB 1058 income.

## 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.