



# QUEENSLAND TREASURY

## 2022-23 FINANCIAL REPORTING REQUIREMENTS

### FOR QUEENSLAND GOVERNMENT AGENCIES

## FRR 4F Equity, Contributions by Owners and Distributions to Owners

### 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 plain text under the "Application Guidance" sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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### 4F.1 STATEMENT OF CHANGES IN EQUITY

#### REFERENCES

- AASB 101 *Presentation of Financial Statements*

#### POLICY

- The required line items for the Statement of Comprehensive Income are as outlined in the corresponding model financial statements unless the line items are not applicable to the entity.
- A reconciliation of payments made from Consolidated Fund that are recognised as equity adjustments 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.
- Note disclosure is required for the reasons for any material amounts of unforeseen expenditure.
- For not-for-profit entities, the asset revaluation surplus must be dissected so as to show separately each class of asset revalued and the closing balance of the asset revaluation surplus by class.

## APPLICATION GUIDANCE

Information on the purpose of the general reserve is required by AASB 101 *Presentation of Financial Statements*. This disclosure should include details of whether it is associated with any cash asset balances within the Statement of Financial Position.

## 4F.2 RESERVES

### REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements*
- *AASB 9 Financial Instruments*
- *AASB 101 Presentation of Financial Statements*
- *AASB 116 Property, Plant and Equipment*
- *AASB 121 The Effects of Changes in Foreign Exchange Rates*
- *AASB 138 Intangible Assets*

### POLICY

- **An agency must not create a reserve (other than a reserve required by accounting standards e.g. an asset revaluation surplus or a foreign currency translation reserve) without prior Queensland Treasury approval.**
- **A request for Treasury approval must clearly explain the purpose of the reserve and how it will be operated on an ongoing basis, including whether the intended reserve is associated with a future cash outlay.**
- **All such Treasury approved reserves must be reviewed annually for continued appropriateness for the agency's present operations. Where a reserve is no longer appropriate, the balance must be transferred to Accumulated Surplus.**
- **After establishment, subsequent transfers to or from the general reserve will be made by way of an adjustment to Accumulated Surplus. Subsequent increases to a general reserve must be limited to an amount no greater than the positive operating result from continuing operations (net profit) for the financial year.**

- **If a general reserve is no longer appropriate or relevant to operations, the accountable officer of the department or the board of a statutory body must approve the closure of the general reserve. The balance of the general reserve must then be transferred back to the Accumulated Surplus within the same financial year as this approval is given.**
- **Agencies must disclose a reconciliation of each of the movements in the reserve.**

## APPLICATION GUIDANCE

Paragraph 65 of the *Framework for the Preparation and Presentation of Financial Statements* (the Framework) states that equity may be sub-classified into reserves that represent either appropriation of Accumulated Surplus or represent capital maintenance adjustments.

Such classifications can be relevant to the users of financial statements when they indicate legal or other restrictions on the ability of the entity to distribute or otherwise apply its equity. The creation of reserves is sometimes required by statute or other law in order to give an added measure of protection from the effect of losses. Transfers to these reserves are appropriations of Accumulated Surplus rather than expenses.

Reserves permitted under Australian Accounting Standards include:

- asset revaluation surplus (AASB 116, AASB 138);
- financial assets at fair value through other comprehensive income (AASB 9);
- foreign exchange translation reserve (AASB 121); and
- cash flow hedge reserve (AASB 9).

The above reserves are used to account for any unrealised gains or losses that would otherwise be recognised in the operating result. The impact of these gains and losses being recorded in the reserves is that the gain or loss is deferred from being recognised in Accumulated Surplus until the point in time that the gain or loss is realised through the completion of a transaction. For example:

- an asset that has had a valuation gain previously recognised in the asset revaluation surplus is sold and the cumulative gain related to that asset is transferred to Accumulated Surplus;
- a transaction for which a cash flow hedge has been recognised is completed and the resultant gain or loss on the hedging instrument is transferred from the reserve to operating result.

**General Reserves – no in-principle support by Queensland Treasury**

Whilst the creation of general reserves for financial reporting purposes is not specifically prohibited under accounting standards, statute or other law, Queensland Treasury does not in principle support the use of general reserves, other than in exceptional circumstances.

In the past, some public sector entities have used general reserves to demonstrate an internal allocation of cash/funds set aside for future use (e.g. asset replacement plan or for future asset maintenance). Usually, the general reserve is matched with a cash asset balance.

It is Queensland Treasury's position that in a constantly changing fiscal environment, the recognition of general reserves to demonstrate an internal allocation of funds does not provide useful information to users of the financial statements.

Therefore, agencies are encouraged to consider alternative disclosure or reporting options (i.e. budgets, business plans, additional financial statement notes and/or annual report disclosures) rather than utilising general reserves as a mechanism to inform users of their financial intentions. For example, if:

- the funds are part of a trust account, they are already quarantined and a disclosure note detailing the operation of the trust account would be more informative;
- there is an intention to allocate funds to a specific project or purpose, additional disclosures related to cash, Accumulated Surplus, income and expense or assets and liabilities in either the financial statements or annual report may be appropriate; or
- the funds are related to a specific function of an agency, then a disclosure on the operations of that function may be more beneficial to users.

**Queensland Treasury Considerations for Approving Creation of a General Reserve**

It is recognised that there may be rare circumstances in which it will be appropriate for an agency to recognise a general reserve. Queensland Treasury specific approval for an agency to use a general reserve will be based on a particular understanding of how the reserve will be created and maintained.

Therefore, consideration will be based on the agency providing the following information:

- the purpose of the general reserve and an argument outlining why a general reserve is the most appropriate mechanism to achieve its purpose;
- explanation of how the general reserve will be operated on an ongoing basis;

- demonstration that the general reserve will be reviewed annually for appropriateness to the agency's operations;
- a note as to whether the general reserve is matched with cash/investments that have been set aside for the reserve's purpose; and
- a note as to whether a future cash outlay is associated with the general reserve.

Where an agency has been given Queensland Treasury approval to create a general reserve, the agency will need to have the following documentation and processes in place to manage and report on the reserves:

- documentation to explain the purpose and nature of each general reserve;
- processes to demonstrate that the general reserves will be reviewed annually and adjusted for any expenditure/increases that have occurred during the financial year;
- board minutes, budgets, business plans or other documents verifying the ongoing maintenance of and future commitments relevant to the general reserves; and
- the notes to the financial statements to include:
  - a clear definition of the purpose and nature of each general reserve; and
  - comment disclosing that the general reserve(s) are backed by cash or cash equivalent investments that are set aside for the specific reserve purpose.

### **Creation, Adjustments and Closure of a General Reserve**

AASB 101 requires reclassification adjustments to be recognised in 'Other Comprehensive Income'. 'Other Comprehensive Income' is defined as *'income and expense (including reclassification adjustments) that are not recognised in the operating result as required or permitted by other Australian Accounting Standards'*. However, in accordance with the Framework, except for a capital maintenance adjustment or a revaluation adjustment, a transfer to a general reserve is an appropriation of Accumulated Surplus rather than an expense. Therefore, adjustments to and from a general reserve represent a 'transaction with owners as owners' and must be presented in the Statement of Changes in Equity under the heading 'Transactions with Owners as Owners'.

## 4F.3 APPLICATION OF INTERPRETATION 1038 TO QUEENSLAND PUBLIC SECTOR ENTITIES

### REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements*
- *AASB 1004 Contributions*
- *Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities*

### POLICY

- **Interpretation 1038 and this policy DO NOT APPLY to transfers between Queensland Government-controlled entities and universities, local governments and statutory bodies established under State legislation but not 'controlled' by the Queensland Government for financial reporting purposes.**

### APPLICATION GUIDANCE

Interpretation 1038 applies to transfers of assets and/or liabilities between wholly-owned public sector entities. It establishes criteria for determining whether transfers satisfy the definition of 'contributions by owners' in AASB 1004 and effectively broadens the scope of entities to which the concepts of 'contributions by owners'/'distributions to owners' apply.

Entities considered to be 'wholly owned' by the Queensland Government are those that are 'controlled' by the Queensland Government for financial reporting purposes. For the purposes of Interpretation 1038 and this FRR, statutory bodies 'controlled' by the Queensland Government are considered to be 'owned' by the Queensland Government.

Therefore, non-reciprocal transfers (that meet the criteria set out later in this FRR) between Queensland Government-controlled entities are to be accounted for as contributions by/distributions to owners by the transferor and recipient.

#### **Universities and Local Governments**

Whilst universities and local governments are established under State legislation, they are not considered to be 'controlled' by the Queensland Government. As such, any transactions between Queensland public sector entities and universities/local governments are considered to be, and are accounted for, as transactions with a party external to the Queensland public sector.

**Immaterial controlled entities of Whole-of-Government**

Some public sector entities are “wholly owned” and “controlled” by the Queensland Government, but are not consolidated into the Whole of Government financial statements solely on the grounds of immateriality. For the purposes of applying this FRR policy, such entities are considered in the same way as a party external to the Queensland public sector. As such, this policy does not apply to such entities.

**Representatives of the State as ‘Owner’**

For the purposes of Interpretation 1038 and this FRR, Queensland bodies or individuals capable of representing the State as the ‘owner’ of Queensland’s wholly-owned public sector entities are Cabinet, Cabinet Budget Review Committee (CBRC), Executive Council or portfolio Minister(s) for the agencies concerned (as representatives of the Government as a whole).

## **4F.4 CRITERIA FOR TRANSFERS TO BE ADJUSTED AGAINST EQUITY**

**REFERENCES**

- *Framework for the Preparation and Presentation of Financial Statements*
- *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*
- *AASB 1004 Contributions*
- *Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities*
- *Financial Accountability Act 2009 (FA Act)*
- *FRR 2F Machinery-of-Government Changes*

**POLICY**

- **Transfers of assets and/or liabilities arising from a moG change are contributions by owners and distributions to owners, as the case may be, and are accounted for against equity. The associated Departmental Arrangements Notice is considered adequate to represent the formal approval/designation (as per Interpretation 1038) in respect of the associated transfers of assets/liabilities between departments.**
- **Any other non-reciprocal transfer of assets and/or liabilities (including a net liability position) to another wholly-owned Queensland Government agency is to be treated as a contribution by owners (and a distribution to owners, as**



**appropriate) and accounted for directly against equity ONLY IF the following three criteria are met:**

- **it is approved by the 'owners' i.e. Cabinet, CBRC, Executive Council or portfolio Minister(s) for the agencies concerned;**
  - **the approval/designation clearly states that the transfer is a capital distribution and/or capital contribution which is adjusted against the transferor's and recipient's equity (constituting the formal designation required under Interpretation 1038). This approval/designation must specify which component(s) of equity (i.e. Contributed Equity, Accumulated Surplus and/or available reserves) are to be adjusted by the agency making the distributions to owners. The approval/designation should specify that the agency receiving the contribution by owners must account for the transfer against Contributed Equity; and**
  - **the approval/designation is obtained at or before the time of the transfer.**
- **Where the State designates that a transfer is to be treated as a total redemption of an ownership interest in the transferor but the balance of the ownership interest is LESS THAN the total net assets transferred, any excess transferred may be designated by the State as a 'contribution by owners'. However, if the approval/designation does not designate the excess as a 'contribution by owners' the balance must be recognised as a gain on redemption of ownership interest in the recipient's operating result.**
  - **Where the State designates that a transfer is to be treated as a total redemption of an ownership interest in the transferor but the balance of the ownership interest is GREATER THAN the total net assets transferred, the difference is to be recognised as a loss on redemption of ownership interest in the recipient's operating result.**
  - **In all cases (including with moG changes), the transferor and recipient agencies must agree on the values of the assets/liabilities transferred or accept the value as determined by the owner (i.e. Cabinet, Cabinet Budget Review Committee, Executive Council or portfolio Minister(s)) in such a timeframe to ensure the agreed transfer values are reflected in that financial year's annual financial statements.**

**Land Under Roads**

- **In relation to transfers of untitled land under roads, a once-off approval/designation must be obtained by those agencies that have acquired land designated for road purposes and are for the first time transferring such land to the Department of Natural Resources and Mines.**
- **For such transfers to be accounted for against equity, this approval/designation must state that:**
  - **it is enduring in nature;**
  - **all land designated for road purposes is to be transferred to the Department of Resources (or whatever other name the relevant department had at the time of the approval/designation) at least before the end of the reporting period;**
  - **the transfers are a capital adjustment, i.e. to be adjusted against the equity of the transferor and recipient (to the extent that the transferor's Contributed Equity is insufficient, its Accumulated Surplus is to be adjusted); and**
- **In such a timeframe to ensure the agreed transfer values are reflected in that financial year's annual financial statements, the recipient/transferor agencies must agree the value of all land under roads transferred during that year or accept the value as determined by the owner (i.e. Cabinet, Cabinet Budget Review Committee, Executive Council or portfolio Minister(s)).**

**APPLICATION GUIDANCE**

Transfers of assets and/or liabilities are either reciprocal or non-reciprocal. A non-reciprocal transfer is where a recipient and transferor directly assume/transfer assets and/or liabilities without giving/receiving approximately equal value in exchange.

Asset and/or liability transfers as a consequence of machinery-of-Government (moG) changes are examples of non-reciprocal transfers.

Whether a transfer of an asset(s) is voluntary (i.e. at the discretion of an agency) or involuntary (e.g. arising from a machinery-of-Government change), is irrelevant when determining the appropriate accounting treatment. As with all transactions, such transfers

should be accounted for according to the substance of the transaction and the requirements of relevant accounting standards and this FRR.

Assets and/or liabilities transferred for no consideration, or for nominal consideration, should generally be transferred at the amounts at which they were recognised by the transferor immediately prior to the transfer. This means, in relation to Property, Plant and Equipment, the gross value, accumulated depreciation and accumulated impairment loss, if any, (as per the records of the transferor at the date of transfer) may be recognised by the recipient, where practicable, as an indication of the age and life cycle of the assets.

Interpretation 1038 does not explicitly consider the treatment for non-reciprocal transfers of liabilities or net liabilities between public sector entities. It is Treasury's view that non-reciprocal transfers of liabilities or net liabilities between Queensland Government entities are distributions to owners, and are to be accounted for in accordance with the principles of AASB 1004 and Interpretation 1038, subject to meeting the criteria of this policy, on the basis of the following:

- there is no AASB pronouncement that specifically applies to this situation;
- pursuant to paragraph 10 of AASB 108, an accounting policy needs to be determined; and
- in determining an appropriate accounting policy, paragraph 11(a) of AASB 108 states that consideration should be given to the applicability of requirements in Australian Accounting Standards dealing with similar and related issues. In this respect, AASB 1004 and Interpretation 1038 contain relevant requirements. Therefore, the principles of those pronouncements form the basis for the policy and guidance in this FRR.

### **Evidencing the Nature of Equity**

Applying the principles in paragraph 8 of Interpretation 1038, a transfer of assets, assets and liabilities, liabilities or net liabilities is a 'contribution by owners'/'distribution to owners' where its equity nature is evidenced by any of the following:

- the issue/cancellation, in relation to the transfer, of equity instruments which can be sold, transferred or redeemed;
- a formal agreement (or amendment thereto), in relation to the transfer, establishing/reducing the financial interest in the net assets of the recipient which can be sold, transferred or redeemed;

- formal designation of the transfer (or a class of such transfers) by the State or a representative of the State as forming part of (or constituting a redemption of) the recipient's Contributed Equity, either before the transfer occurs or at the time of the transfer.

The formal approval/designation may occur in a variety of ways. Whatever means is used, it must specify that the transfer is to be adjusted against the recipient's and transferor's Contributed Equity and/or other components of equity. Refer to the Appendix to this FRR for examples of approvals/designations.

The ability to redistribute Government functions through a moG change evidences the State's capacity to redeem and transfer its financial interest in the net assets of a department. MoG changes are identified by issue of a Departmental Arrangements Notice (DAN).

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 Acts* represent the formal designation required under Interpretation 1038.

To the extent that an equity adjustment is to Contributed Equity, and is not an appropriated equity adjustment under the FA Act, it is known as a non-appropriated equity adjustment.

**With any non-reciprocal transfer of assets and/or liabilities, where the State (or a representative thereof) has not issued an approval/designation that meets the criteria in this FRR to enable accounting against equity, the transfer is to be recognised as income or expense, as the case may be.**

#### **Specifying components of equity**

The State, as owner, has the discretion to distinguish between the entity's Contributed Equity and other components of equity e.g. Accumulated Surplus/Deficit (in accordance with the principles underlying paragraph 31 of Interpretation 1038) when making a distribution. For the purposes of an approval/designation regarding a 'distribution to owners', this means the State can specify the components of equity against which the distribution is to be allocated.

The entity making the transfer of assets and/or liabilities should record a decrease in its assets and/or its liabilities with a corresponding decrease/increase in Contributed Equity or other components of equity in accordance with the approval/designation. Conversely, the

receiving entity should recognise a matching increase in assets/liabilities with a corresponding adjustment to its equity.

Generally, contributions by and distributions to owners are adjusted against Contributed Equity. To the extent that a capital contribution or distribution would cause the transferor's Contributed Equity to reduce below \$0, the balance should be adjusted against that entity's Accumulated Surplus. In turn, to the extent that this would cause the transferor's Accumulated Surplus to reduce below \$0, the balance should be recognised as an expense by the transferor and as corresponding revenue by the recipient.

**Reserve balances cannot be transferred between agencies**

Reserve balances, including Asset Revaluation Surpluses, cannot be transferred between agencies. Although such balances cannot be transferred, an approval/designation connected with a transfer can specify how a 'distribution to owners' is to be allocated between the various components of equity (including Accumulated Surplus/Deficit and available reserves), consistent with paragraph 31 of Interpretation 1038.

In the context of transfers of assets/net assets, a formal designation can classify part or all of a transfer as a 'redemption of ownership interest' (in the transferor) by the recipient, but only to the extent of the ownership interest recorded by the transferor immediately before the distribution is made (paragraph 43 of Interpretation 1038). This is acceptable because the recipient is receiving a return of its investment (in the form of net future economic benefits). The criteria for accounting for a transfer as a 'redemption of ownership interest' (all or in part) in the transferor are set out in paragraph 13 of Interpretation 1038.

Where a transfer of liabilities/net liabilities meets the criteria for treatment as a 'distribution to owners' for the recipient (and therefore the State can specify the components of equity to be debited in the recipient's books), the transferor must only account for this as an increase in its Contributed Equity (as, under Interpretation 1038, a 'contribution by owners' can only be credited to Contributed Equity).

In the context of transfers of liabilities/net liabilities, the owner has the discretion to designate such transfers for the recipient as:

1. a distribution to owners (and a contribution from owners for the transferor)
2. an increase in ownership interest
3. assumption of a liability through profit or loss.

**Consistent Classification between Transferor and Recipient**

Applying paragraph 11 of Interpretation 1038, if a non-reciprocal transfer of assets/net assets meets this policy's criteria for accounting as a contribution by owners by the recipient, then the transferor entity must classify the transfer as a distribution to owners (unless the transferor makes the transfer to an investee – in which case, the transfer is classified as acquisition of an ownership interest in the recipient).

Similarly, applying the concepts and principles in paragraph 11 of Interpretation 1038, if a non-reciprocal transfer of liabilities/net liabilities meets this policy's criteria for accounting as a distribution to owners by the recipient, then the transferor entity must classify the transfer as a contribution by owners.

**Enduring designations**

AASB 1038 indicates that a designation may be for a class of transfers, such that the designation authorises multiple separate transfers (and associated equity adjustments), and potentially between different entities, over a period of time (in this policy, these are referred to as "enduring designations"). In circumstances where an enduring designation is considered appropriate, the requirements and guidance of this FRR 4F.4 apply as far as relevant. Implementing an enduring designation also demands that the "initiating" agency take ongoing responsibility for reviewing its applicability over time (refer below).

In addition to the requirements and guidance of this FRR 4F.4, enduring designations should:

- adequately describe the nature and purpose (and, where possible, timing) of the transfers so it will be clear whether a specific future transfer is within or outside its scope;
- identify the transferor and transferee entities or, where this is not possible, criteria to identify those entities (similarly, so it will be clear whether a specific future transfer is within or outside its scope). In the case of departments, the designation should be drafted so it allows application to a potential new departmental name after a machinery-of-Government change (if that is the initial intention); and
- incorporate one or more event triggers for the designation to be reviewed, replaced or withdrawn from use. In particular, a significant change to the functions or identity of an entity specifically referred to in the designation would be an appropriate time to revisit the ongoing need for the designation and - where appropriate - to seek approval from the Government 'owners' to replace it with a new designation referring to the current entity name(s).

## 4F.5 TRANSFERS TO ENTITIES OUTSIDE THE QUEENSLAND PUBLIC SECTOR

### POLICY

- **Non-reciprocal transfers of non-cash assets and/or liabilities (including a net liability position) between a department and entities not considered to be controlled by the Queensland Government (refer to section 4F.3) must be recognised through the department's Administered accounts, provided the transfers have been approved, at or before the time of the transfer, by Cabinet, CBRC, Executive Council or portfolio Minister(s) for the agencies concerned, UNLESS a department receives appropriation funding to compensate for any resulting loss. (In the latter situation, the transfer must be accounted for in the department's Controlled Statement of Comprehensive Income.)**

### APPLICATION GUIDANCE

If a department meets the above policies to reflect a transfer in its Administered accounts, an initial adjustment should be made against the department's Controlled Contributed Equity account (and/or Accumulated Surplus where the balance of Contributed Equity is insufficient), and then Administered expenses/revenue ultimately need to be recognised. For example:

Contributed Equity/Accumulated Surplus (controlled)	Dr	130	
Accumulated Depreciation (controlled)	Dr	50	
Accumulated Impairment Losses (controlled)	Dr	20	
Assets (controlled)	Cr		200

*(to de-recognise the asset from the controlled accounts)*

Assets (administered)	Dr	130	
Contributed Equity (administered)	Cr		130

*(to initially recognise the asset in the administered accounts)*

Grant Expense (administered)	Dr	130	
Assets (administered)	Cr		130

*(to recognise the transfer of the asset in the administered accounts)*

Non-reciprocal transfers of assets and liabilities between a statutory body and entities external to the Queensland public sector can only be adjusted through the Statement of Comprehensive Income. This is because each entity belongs to a different economic entity (with different owners), so the transactions between the two entities will not be offset within the whole-of-Government consolidated financial statements. Unlike most departments, statutory bodies do not have administered activities and therefore they cannot adopt the above treatment.

## 4F.6 DISCLOSURE OF TRANSFERS ADJUSTED AGAINST EQUITY

### REFERENCES

- FRR 2A *Basis of Financial Statement Preparation*
- FRR 2F *Machinery-of-Government Changes*

### POLICY

- **Where an agency has accounted for asset and/or liability transfers directly against equity during the reporting period, it must disclose, for each asset and liability financial statement line item in its Controlled and Administered statements/notes (as applicable):**
  - **the net transfers in respect of each other agency; and**
  - **the total net transfers to/from other agencies.**
- **The above disclosures are not required in respect of comparative reporting periods.**

### APPLICATION GUIDANCE

The disclosure requirements of this FRR 4F.6 are illustrated below. Agencies may use this as a guide for presenting their own disclosures where required but should tailor the wording/structure to reflect their own circumstances.



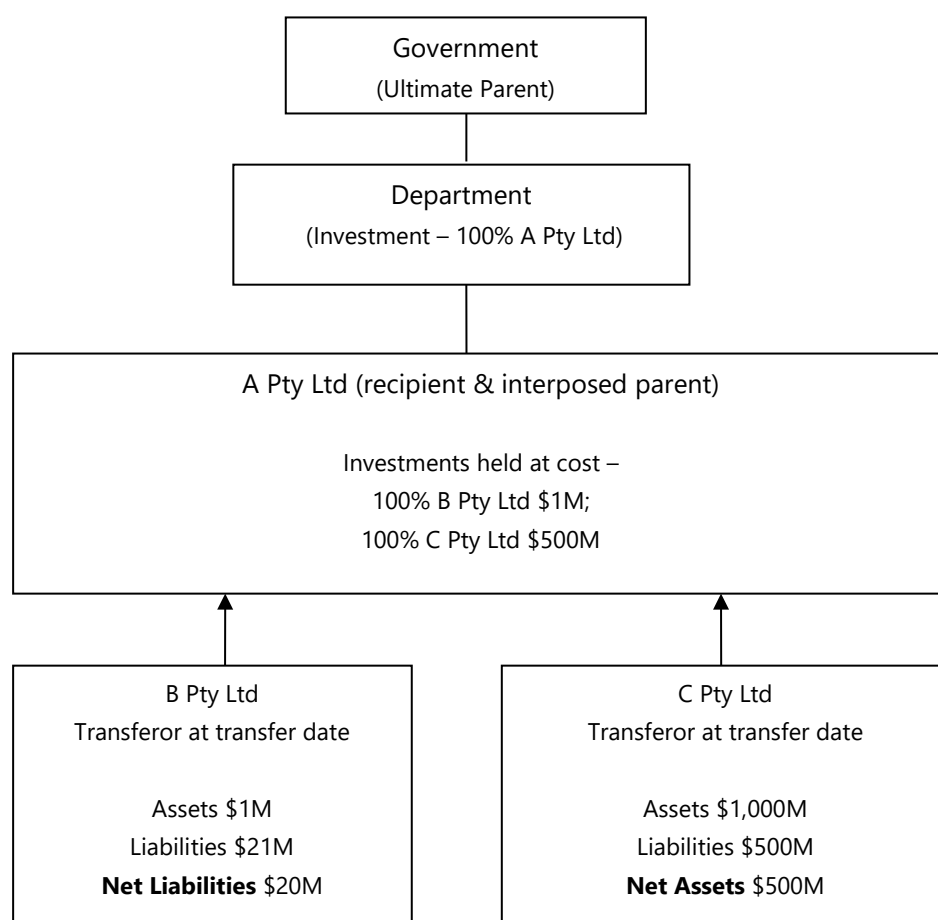
Illustrative Disclosure:

As a result of the Public Service Departmental Arrangements Notice (No. x), dated [Notice commencement date] 20xx, functions relating to wildlife support services were transferred in from the Department of ABC, responsibility for the function relating to the research into the sustainable development and conservation of Queensland's ecology was transferred to the Department of UVW, and the function relating to the development and publication of training material and information packs in relation to the sustainable development and conservation of Queensland's ecology was transferred to the Department of XYZ. As a result of these changes, the following assets and liabilities will be / were [adapt as appropriate] transferred:

Line Item	Net transfers IN from	Net transfers OUT to	Net transfers OUT to	Net Transfers IN(OUT)
	Agency ABC \$'000	Agency UVW \$'000	Agency XYZ \$'000	\$'000
<b><u>Assets</u></b>				
Cash	x	x	x	x
Receivables	x	x	x	x
Inventories	x	x	-	x
Non-current assets held for sale	x	x	-	x
Property, plant and equipment	x	x	x	x
Intangible assets	x	x	-	x
Investment property	x	-	x	x
<b>Total Assets</b>	x	x	x	x
<b><u>Liabilities</u></b>				
Payables	x	x	x	x
Interest-bearing liabilities and derivatives	x	x	-	x
Accrued employee benefits	x	x	x	x
Provisions	x	x	x	x
<b>Total Liabilities</b>	x	x	x	x
<b>Net Assets(Liabilities)</b>	x	(x)	(x)	x

## APPENDIX 1 EXAMPLE OF A NET LIABILITY TRANSFER

### Example of Contributions by/Distributions to Owners



### **Background**

The Government has made a policy decision to restructure the activities and functions of the group of companies comprising A Pty Ltd, B Pty Ltd and C Pty Ltd, resulting in a wind-up of B Pty Ltd. C Pty Ltd is to transfer one of its borrowings (carrying amount \$250M) to A Pty Ltd.

All consequential transfers of assets and liabilities arise from a decision made by Government, without the discretion of any of the entities concerned.

To reflect the Government's decisions on the accounting treatment of these transfers, the Government's approvals/designations, finalised before the transfer date, specify the following formal designations:

- The transfer of B Pty Ltd assets and liabilities (i.e. net liabilities) is to be accounted for by A Pty Ltd as a distribution to owners (to be adjusted against A's equity, rather than as an acquisition of an ownership interest), and by B Pty Ltd as a contribution by owners.
- The transfer of one of C Pty Ltd's borrowings is to be accounted for as a distribution to owners (rather than an acquisition of an ownership interest) by A Pty Ltd and a contribution by owners to C Pty Ltd. Both entities are to account for these as an adjustment against Contributed Equity, to the extent that they have a sufficient balance. To the extent that such adjustments would cause the transferor's Contributed Equity to reduce below \$0, the balance should be adjusted against that entity's Accumulated Surplus. To the extent that this would cause that entity's Accumulated Surplus to reduce below \$0, the balance should be recognised as an expense by the transferor and as corresponding revenue by the recipient.

**The following illustrative journal entries assume that each entity has a sufficient credit balance for Contributed Equity.**

### **Accounting Treatment**

#### **A Pty Ltd**

Assets	Dr	\$1M		
Contributed Equity		Dr	\$20M	
Liabilities			Cr	\$21M

*(Recognition of distribution to owners for the assumption of net liabilities from B Pty Ltd in accordance with formal designation)*

Impairment Loss on Investment	Dr	\$1M		
Investment in B Pty Ltd			Cr	\$1M

*(Recognition of impairment loss expense re investment asset not realised/recovered following wind up of B Pty Ltd)*

Contributed Equity	Dr	\$250M		
Liabilities			Cr	\$250M

*(Recognition of assumption of borrowings from C Pty Ltd against Contributed Equity, in accordance with formal designation as a distribution to owners)*

**B Pty Ltd**

Liabilities	Dr	\$21M	
Contributed Equity			Cr \$20M
Assets			Cr \$1M

*(Recognition of transfer of net liabilities to A Pty Ltd on wind up adjusted against Contributed Equity in accordance with formal designation as a contribution by owners)*

Contributed Equity	Dr	\$21M	
Accumulated Surplus/Deficit			Cr \$21M

*(To clear remaining equity balances following the transfer of net liabilities and the wind up of the company – assumes Contributed Equity balance of \$1M prior to transfer)*

**C Pty Ltd**

Liabilities	Dr	\$250M	
Contributed Equity			Cr \$250M

*(Recognition of the transfer of a borrowing to A Pty Ltd adjusted against Contributed Equity in accordance with formal designation as a contribution by owners)*

## APPENDIX 2 EXAMPLE APPROVAL/DESIGNATION

### **Example 1. Transfer of an asset between departments**

This designation is to effect the transfer of an asset from the transferor *[insert name]* to the recipient *[insert name]*.

#### **DESIGNATION OF TRANSFER**

Department of *[insert name of transferor department]* transfers *[asset]* to the Department of *[insert name of recipient department]* as a result of a decision made by the owner or a representative of the owner in relation to *[insert event]*.

Transfer date – *[insert DD Month YYYY]*

	\$'000
Asset transferred to Department of <i>[insert name]</i>	\$xxx
Asset transferred from Department of <i>[insert name]</i>	\$xxx

or

The value of the asset transferred at date of transfer is to be agreed by *[insert date]*.

This designation is made pursuant to AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* and FRR 4F Equity, Contributions by Owners and Distributions to Owners.

This transfer is designated as contributions by owners for the recipient, which is to be adjusted against the Department of *[insert name of transferor department]* and the Department of *[insert name of recipient department's]* Contributed Equity, to take effect on *[DD Month YYYY]*. To the extent that this would cause the Contributed Equity of *[the transferor department]* to reduce below \$0, the balance is to be adjusted against *[the transferor department's]* Accumulated Surplus. To the extent that this would cause *[the transferor department's]* Accumulated Surplus to reduce below \$0, the balance is to be recognised as an expense by *[the transferor]* and corresponding revenue by *[the recipient]*.

Approved by:

*[Minister's / responsible body's signature]*

*[Minister's / responsible body's name]*

*[Minister's / responsible body's position]*

*[Date]*

**Example 2. Transfer of Assets to a Parent from its Subsidiary****DESIGNATION OF TRANSFER**

This Notice is to effect the transfer of assets from the transferor [insert name of entity] to the recipient) [insert name of entity].

The transfer of assets and other things done under this designation are to be accounted for:

- as a 'distribution to owners' 'by the transferor;
- as a 'redemption of ownership interest' by the recipient; and
- in accordance with AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

The transfer of assets is to be considered as an adjustment of the recipient's ownership interest in the transferor and an adjustment to the transferor's Contributed Equity. To the extent that this would cause the Contributed Equity of [*the transferor entity*] to reduce below \$0, the balance is to be adjusted against [*the transferor's*] Accumulated Surplus. To the extent that this would cause [*the transferor's*] Accumulated Surplus to reduce below \$0, the balance is to be recognised as an expense by [*the transferor*] and as corresponding revenue by [*the recipient*].

Where the value of the assets transferred is greater than the value of the recipient's investment in the transferor, the balance is to be considered a 'contribution by owners' and therefore an adjustment to the Contributed Equity of the recipient.

This date of this designation is [*dd/mm/yyyy*].

Approved by:

[*Representative of the State as the 'owner'*]

or

[*(If Ministers) Transferor Minister's signature, name, and position*]

or

[*(If Ministers) Recipient Minister's signature, name, and position*]