ACT ACCOUNTING POLICY

AAPP 102 - ACT Accounting Policy Paper

on

Dividends

FOR REPORTINGPERIODS ENDING ON OR AFTER

30 JUNE 2006

1 Introduction

1.1 Application

1.1.1 Purpose

This ACT Accounting Policy: *Dividends* provides general guidance on the recognition of a provision for dividends paid by Territory Owned Corporations (TOCs) to the ACT Government. This Policy is to be read in conjunction with the following:

- AASB 110 *Events after the Balance Sheet Date*; and
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets.*

1.1.2 Relationship to International Financial Reporting Standards

ACT Accounting Policies are to be read in conjunction with the applicable Australian Accounting Standards. Australian Accounting Standards incorporate International Financial Reporting Standards issues by the International Accounting Standards Board, with the addition of paragraphs on the applicability of each standard in the Australian environment. This policy assists TOCs to apply the requirements within Australian Accounting Standards to recognise a provision for the payment of dividends to the ACT Government.

There is, however, no intention that the ACT Accounting Policies will replicate the Accounting Standards. Consequently, agencies should ensure that they have a good understanding of the content of the standards before reading and applying relevant ACT Accounting Policies.

1.1.3 Application Date

This ACT Accounting Policy Paper applies to reporting periods ending on or after 30 June 2006.

1.1.4 Agencies covered by this Policy

This policy applies to Territory Owned Corporations only.

1.1.5 Contact

If you have any questions regarding the content or application of this ACT Accounting Policy, please do not hesitate to contact the ACT Accounting Branch policy section to provide further clarification. Contact details are listed on the website: www.treasury.act.gov.au/accounting/html/contacts.htm

2 Dividends

2.1 Recognition of Dividends

Accounting Standard Requirements

AASB 110.12 requires that where an entity declares dividends to holders of equity instruments after the reporting date, the entity shall not recognise those dividends as a liability at the reporting date. Dividends declared after the reporting date are not recognised as they do not meet the criteria of a "present obligation" in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Therefore, only dividends declared before the end of the reporting date can be recognised as a liability. AASB 110 also infers that only dividends, which have been appropriately authorised, are taken to be declared. An example of a dividend being appropriately authorised is where it is approved by shareholders in an annual general meeting.

ACT Policy

TOCs are required to prepare a Statement of Corporate Intent (SOCI) at the beginning of each financial year. The SOCI is an agreement between the relevant Minister and the Board / management of the TOC and determines, among other things, the amount of dividends to be paid for the financial year. The amount included in the SOCI is generally not a dollar amount but is a percentage of the TOC's annual profits.

Consistent with AASB 137, the SOCI creates a "present obligation" that the TOC will pay a dividend and therefore enables the raising of a provision for payment of the dividend. The full amount of the interim and final dividends is recognised in the year to which they relate even though the payment may not occur until the following year.