



AAPP 116 ACT ACCOUNTING POLICY PAPER ON CONTRIBUTIONS BY OWNERS (AASB 1004 AND INTERPRETATION 1038)

Chief Minister, Treasury and Economic Development
Directorate

Policy start date: 1 July 2022

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1. INTRODUCTION

1.1 APPLICATION

1.1.1 Purpose

This ACT Accounting Policy Paper addresses when transfers should be recognised within equity as contributions by owners or distributions to owners, in accordance with the Australian Accounting Standards (AAS). To ensure consistent treatment within the ACT Government, this Paper provides criteria for agencies to identify when a transaction should be classified as a contribution by or distribution to owners and how to account for it.

This policy is to be read in conjunction with the following:

- > AASB 3 *Business Combinations*;
- > AASB 1004 *Contributions*;
- > AASB 1048 *Interpretation of Standards*;
- > AASB 1058 *Income for Not-for-Profit Entities*;
- > Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*;
- > AAPP 110 – ACT Accounting Policy Paper on Employee Benefits;
- > AAPP 112 – ACT Accounting Policy Paper on Accounting for Land Transactions – Transfers Between ACT Government Agencies; and
- > AAPP 114 – ACT Accounting Policy Paper on Concessional Loans (AAPP 114 – Concessional Loans).

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

1.1.2 Application Date

This ACT Accounting Policy applies to reporting periods beginning on or after 1 July 2022. For agencies whose financial year ends on 30 June, this policy is applicable to financial years ending on or after 30 June 2023. For agencies whose financial year ends on 31 December, this policy is applicable to financial years ending on or after 31 December 2023.

1.1.3 Agencies Covered by this Policy

This policy applies to ACT Government Agencies, that is Directorates and Territory Authorities.

1.1.4 Contact

If you have any questions regarding this Policy, contact the Financial Reporting and Framework (FRF) Branch in Treasury to provide further clarification. Contact details are listed on the 'Accounting in the ACT' website at <https://www.treasury.act.gov.au/accounting>.

1.1.5 Application of Policy

Requirements of this policy are included in **bold** text, with un-bolded text being background information/commentary.

1.1.6 Scope

The whole of government and general government sector financial statements of the ACT Government are excluded (Int 1038 para 4) from the application of this policy.

Liabilities of Government Directorates assumed by other agencies are not covered in this paper, refer to AAPP 110 ACT Accounting Policy Paper on Employee Benefits. Where an agency requires guidance for the transfer of non-employee benefit related liabilities (not related to restructures of administrative arrangements), contact the FRF Branch.

Taxes, rates and fines are not considered to be contributions by owners acting in their capacity as owners (AASB 1058 para B29). Furthermore, transfers made as consideration for the provision of goods or services, including the provision of debt finance, at fair value to the transferor are not considered contributions by owners (Int 1038 para 1), they are usually accounted for under AASB 15 *Revenue from Contracts with Customers* or AASB 1058 *Income for Not-for-Profit Entities*.

2. CONTRIBUTIONS BY/DISTRIBUTIONS TO OWNERS

The following section outlines the requirements for transactions to be considered contributions by or distributions to owners. This includes:

- restructures of administrative arrangements, which due to their nature are automatically considered to be contributions by/distributions to owners; and
- other transactions that meet the criteria to be recognised as contributions by/distributions to owners, which for ACT Government agencies will generally involve a formal designation.

Agencies should note that restructures of administrative arrangements have different accounting, measurement and disclosure requirements and therefore guidance is provided under separate headings in the relevant sections below.

2.1 RESTRUCTURE OF ADMINISTRATIVE ARRANGEMENTS

2.1.1 Definition of a Restructure of Administrative Arrangements

A restructure of administrative arrangements (AAs) is the reallocation or reorganisation of assets, liabilities, activities and responsibilities amongst agencies that the government controls that occurs as a consequence of a rearrangement in the way in which activities and responsibilities as prescribed under legislation or other authority are allocated between the government's controlled entities (AASB 1004 Appendix A).

Note that this does not apply to an individual asset that may be transferred between agencies, but rather to the transfer of a 'business' as defined by AASB 3 *Business Combinations*. That definition of a 'business' is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing:

- (a) a return in the form of dividends; or
- (b) lower costs or other economic benefits directly to investors or other owners, members or participants (AASB 3 Appendix A).

All restructures of AAs will satisfy the definition of a business under AASB 3. This is because AA restructures involve the transfer of an integrated set of activities, mainly for the purpose of reducing overall costs or providing other economic benefits to the Community (members or participants), and they involve a discrete function being transferred between agencies.

An AA restructure often involves the transfer of appropriations, staff, banking accounts and assets and liabilities.

2.1.2 Common Examples of a Restructure of Administrative Arrangements

The following list provides some common examples (the list is not exhaustive) of when restructures of AAs may occur:

- a new agency is created and assets and liabilities are transferred to this new agency from one or more government controlled agencies;
- two or more agencies are merged together;
- dividing a single agency into two or more new agencies;
- cessation of an agency and the net assets are transferred to another government controlled agency; and
- transfer of function between existing agencies due to Government decisions.

The following are examples of AA restructures that have occurred in the ACT Government, where new agencies were created and assets and liabilities were transferred from an already existing agency:

- the establishment of the Office of the Work Health and Safety Commissioner (WorkSafe ACT) on 1 July 2020 and the transfer of the responsibility for the WorkSafe function from the Chief Minister, Treasury and Economic Development Directorate (CMTEDD); and
- the establishment of Major Projects Canberra on 1 July 2019 and the transfer of the whole of government capital works functions from CMTEDD.

For guidance on accounting treatment and measurement relating to AA restructure transfers, refer to Sections 3.1.1 and 3.2.1 respectively.

2.2 CONTRIBUTIONS BY OWNERS

As noted in Sections 2 and 2.1 above, restructure of AAs are automatically considered to be contributions by/distributions to owners due to their nature. The following sections (Section 2.2.1-2.4.5) are not relevant for restructures resulting from AAs, they relate to other contributions by/distributions to owners, which due to the nature of Government will require formal designations.

2.2.1 Definition of Contributions by Owners

Contributions by owners are considered to be:

- future economic benefits that have been contributed to the agency by parties external to the agency, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the agency which:
 - (a) conveys entitlement both to distributions of future economic benefits by the agency during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the agency being wound up; and/or
 - (b) can be sold, transferred or redeemed (AASB 1004, Appendix A).

Transfers between agencies which are controlled by the same government can be taken to be a transfer from that Government, where it meets the requirements and is designated as a contribution by owners. For example, a decision by the ACT Government to transfer assets between the Suburban Land Agency (SLA) and the Environment, Planning and Sustainable Development Directorate (EPSDD) can be designated as a contribution by owner as they are both wholly-owned agencies by the same parent (i.e. the Government).

Transfers made for consideration for the provision of assets or services at fair value to the transferor are not considered to be contributions by/distributions to owners and are therefore excluded from this policy.

Transfers between agencies that are not a result of a decision by 'owners' (as defined in Section 2.2.2) are also not considered to be contributions by owners. In that case, where the transfers of resources are non-reciprocal they should be recognised as 'Grants and Contributions Revenue' in the Operating Statement.

2.2.1 Evidence of Equity Nature

Interpretation 1038 provides guidance to determine when transactions meet the definition of contributions by owners.

In particular, it outlines that a transfer is considered to be a contribution by owners where its equity nature is evidenced by:

- a. the issuance, in relation to the transfer, of equity instruments which can be sold, transferred or redeemed;
- b. a formal agreement, in relation to the transfer, establishing a financial interest in the net assets of the transferee which can be sold, transferred or redeemed; or
- c. formal designation of the transfer (or a class of such transfers) by the transferor (i.e. owner – see Section 2.2.2) or a parent of the transferor (i.e. owner – see Section 2.2.2) as forming part of the transferee's contributed equity, either before the transfer occurs or at the time of the transfer (Int 1038 para 8).

For most agencies, it is unlikely that (a) or (b) above will be relevant. Therefore these types of evidence are not discussed further below, however if an agency believes that this type of evidence exists for their transactions they should contact the FRF Branch to discuss. Further details of a formal designation are included in Section 2.4.

The following factors do not provide evidence that a transfer is a contribution by owners:

- a. whether the transfer increases capacity of the transferee to provide services;
- b. the composition and extent of the transfer; or
- c. the nature of the parties involved, i.e. whether they are for-profit or not-for-profit (Interpretation 1038 para 20).

Authorisation of a transfer by a legally binding authority, for example a statute or ministerial direction, does not itself indicate that the transfer is a contribution by owner. In order for such a legally binding authority, it must designate that the transfer is such, refer to Section 2.4 Designations.

2.2.2 Owners in the ACT Government

In the context of contributions by/distributions to owners in the ACT Government, the following are taken to be the 'owner':

- Cabinet; and

- Portfolio Minister of the transferor agency (in the case of appropriations, this is taken to be the Treasurer).

As noted in Section 2.4 below, the formal designation must be approved by the owner.

2.2.3 Types of Contributions by Owners

Contributions by owners can occur at any stage, not just during the establishment of the agency and may be provided as:

- cash;
- non-monetary assets such as property, plant and equipment;
- conversion of liabilities to equity; or
- the provision of services for no consideration (AASB 1004 para 52).

Contributions by the ACT Government to agencies can only be through means allowed under the *Financial Management Act 1996* (FMA) and other applicable legislation.

2.2.3.1 Appropriations

Contributions, under Interpretation 1038, may include parliamentary appropriations and other transfers to territory authorities, directorates and government-owned corporations within the same group of entities where the transferee is wholly-owned by the controlling government (Interpretation 1038 para 3).

Parliamentary appropriations over which a directorate gains control shall be recognised as a direct equity adjustment to equity where the appropriation meets the definition of a contribution by owners (AASB 1004 para 32).

The table below provides agencies with guidance on the treatment of ACT Government specific appropriations.

Table 1: Appropriations

<i>Appropriation type</i>	<i>Definition</i>	<i>In-scope?</i>	<i>Treatment (by receiving agency)</i>
Controlled Recurrent Payment (CRP)	An amount provided, or to be provided to a territory entity for the delivery of goods and services provided by the territory entity or a person providing goods and services on behalf of the territory entity. <i>Source: FMA Dictionary</i>	No	Recognise as income by agencies, these are not considered to be contributions by owners.

<i>Appropriation type</i>	<i>Definition</i>	<i>In-scope?</i>	<i>Treatment (by receiving agency)</i>
Capital injections	An amount provided, or to be provided, to a territory entity for— (i) the purchase of assets to be held or owned by the territory entity; or (ii) the development of assets held or owned by the territory entity; or (iii) augmenting the assets held or owned by the territory entity; or (iv) reducing the liabilities of the territory entity; but does not include an amount provided from an appropriation for a purpose mentioned in section 8(1)(a), (c) or (2)(a) of the FMA. <i>Source: FMA Dictionary</i>	Yes	Recognise as contribution by owners.
Payments made by agency on behalf of the Territory	Territorial (administered) revenues, which the Government appropriates to Territory entities for the payment of grants, subsidies and transfer payments. <i>Source: 2022-23 Budget Papers – Glossary</i>	No	Recognise as income by agencies, these are not considered to be contributions by owners.

As per Section 2.2.2 above, in the case of appropriations, the Treasurer is considered to be the owner. In the case of appropriations which are on-passed to another agency and it is included in the Budget (Budget Statements), it retains the equity nature when transferred to the final recipient agency and therefore a separate designation is not required. That is, the middle agency reflects both the drawdown and transfer within equity and the final agency recognises it as equity (contribution by owner).

2.3 DISTRIBUTIONS TO OWNERS

2.3.1 Distribution to Owners

Distributions to owners (i.e. the Government) can occur at any stage, at the discretion of the owners (refer Section 2.2.2), and result in a reduction in equity through the:

- transfer of assets;
- rendering of services; or
- increase in liabilities (AASB 1004 para 53).

A distribution to owners (also referred to as a redemption of part or all of its ownership) as classified by the transferor, should only be recognised as such by the transferee when the equity nature is evidenced by:

- (a) the cancellation, in relation to the transfer, of equity instruments which can be sold, transferred or redeemed;

- (b) amendment of a formal agreement, in relation to the transfer, to reduce the transferee's financial interest in the net assets of the transferor which can be sold, transferred or redeemed; or
- (c) formal designation of the transfer (or a class of such transfers) as a redemption of an ownership interest in the transferor, made by the government (i.e. owner) or a government-controlled parent of the transferee, either before the transfer occurs or at the time of the transfer (AASB Interpretation 1038 para 13).

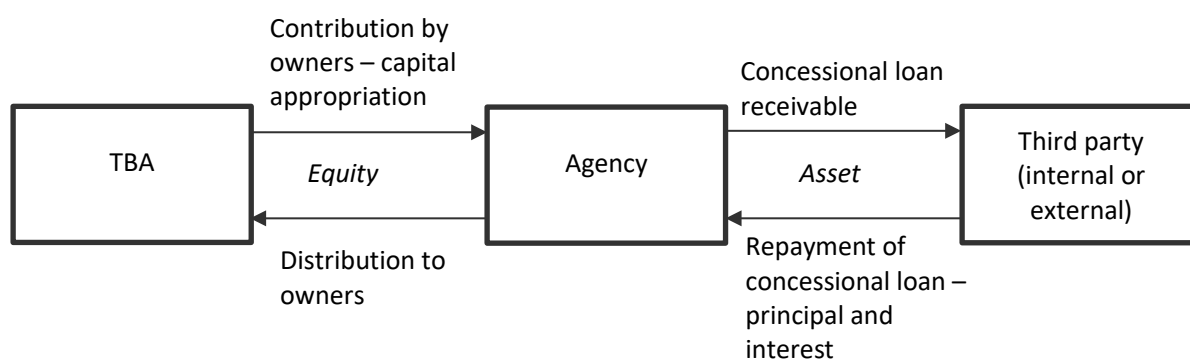
As is the case for contributions by owners, for most agencies, formal designation is likely to be the main type of evidence of equity.

Agencies should return the proceeds from the sale of assets to Government (through the Territory Banking Account (TBA)), unless there is prior authority to retain. A designation must be used to specify that it is treated as a distribution to owners.

If a transfer to the Government (through the TBA) were to occur without a formal designation as equity, the agency would be required to recognise the transfer as an expense. Therefore agencies must ensure the requirements of a formal designation, as per Section 2.4, are met for the return of funds to the Government. This will require agencies to communicate with the Portfolio Minister, as the owner, to provide the designation. The sale of assets and the transfer of the funds back to the TBA should be accounted for as two separate transactions.

Where an agency has received a capital injection appropriation (i.e. contribution by owners) which is then used to provide a concessional loan to a third party and the agency then receives concessional loan repayments (e.g. principal and interest) which it transfers back to the TBA, the transfer back to the TBA should be recognised as a distribution to owners.

Diagram 1: Distribution to Owners and Concessional Loans



In the situation that an agency receives a concessional loan directly from the TBA and repays the principal and interest to the TBA it would not be considered a distribution to owners. Refer to AAPP 114 – Concessional Loans for further guidance on concessional loans.

Agencies should contact the FRF Branch if considering arrangements that fall outside the above examples.

2.4 DESIGNATIONS

2.4.1 What are Formal Designations?

A formal designation can be used to evidence contribution by owners or a distribution to owners. In the context of the ACT Government, a formal designation is the government, as owner, stipulating that the transfer between two wholly-owned ACT Government agencies are a contribution by/distribution to owners and therefore equity in nature. As per Interpretation 1038 para 31, a designation can be in the form of:

- a minute of a decision by the governing body of the contributor (a Ministerial Brief or Cabinet decision);
- correspondence to the transferee;
- legislation;
- administrative orders¹; or
- allocation statements, directions or bulletins issued by or on behalf of relevant Ministers.

In the context of the ACT Government, it is considered best practice to include the formal designations in the relevant Government decisions.

A designation cannot be used where the transferee is not wholly-owned by the transferor or its controlling government. In that situation, an equity instrument or formal agreement would be required (Interpretation 1038 para 25). An example of a formal designation in the form of a Minute is included in [Attachment B](#).

2.4.2 Key Features of the Designation

The formal designation should be made by the transferor (or the parent of the transferor) because distinction between contributed equity and retained earnings/reserves is at the discretion of its owners (Interpretation 1038 para 31).

The designation should include the following elements:

- details of the transfer, including which agencies are involved;
- date of the designation (refer to Section 2.4.3 below);
- date of the transfer;
- the value of the asset (and/or liability) being transferred;
- specify that the transfer (or a class of transfers) is an equity transfer;
- specify the component of equity, usually this would be Accumulated Funds²; and
- approval by the asset/liability 'owners'. That is, the Cabinet or the Portfolio Minister of the transferor.

¹ Note that while an Administrative Order may be considered a form of designation, Restructures of Administrative Arrangements are automatically considered to be contribution/distribution of equity and do not require a separate designation – refer to Section 2.1.

² Where the balance of accumulated funds of the transferor would be reduced to below zero (i.e. a negative balance), the excess should be recognised as an expense by the transferor (and therefore revenue by the transferee). Refer to Section 3.2.4.

2.4.3 Timing of Designation

Designation must occur at or before the time of the transfer, it cannot be performed retrospectively (Interpretation 1038 para 32). A transfer occurs where control of the relevant assets or liabilities being transferred passes from one agency to another.

Example 1 – Insufficient Designation

On 20 March 202X, Agency B received non-financial assets valued at \$500,000 from Agency A as a result of a Government Decision. There was no consideration paid by Agency B for the assets being transferred by Agency A. There was no equity instrument or formal agreement establishing a financial interest in the net assets of the transferee. Agency B prepared and approved a Minute on 31 March 202X, stating that they would account for the assets as a contribution by owners.

Analysis

Due to the following reasons, there has been no formal designation and the amount should not be recognised as a contribution by/distribution to owners:

- the designation needs to be made by the owners, i.e. the Cabinet or the relevant Minister of the transferor (Agency A), not by the transferee (Agency B); and
- the designation needs to occur before or at the time of the transfer – it cannot happen afterwards.

As the above designation is insufficient, it cannot be treated as a contribution by owners. The following journals would be required to reflect the transfer:

Transferor (Agency A)

Dr	Losses arising from the Contribution of Assets	500,000	
Cr	Non-Financial Asset		500,000
Recognise transfer of non-financial assets to Agency B (not as a contribution by owners).			

Transferee (Agency B)

Dr	Non-Financial Asset	500,000	
Cr	Gain Arising from the Contribution of Assets		500,000
Recognise transfer of non-financial assets from Agency A.			

2.4.4 Overarching Designations

Where there is a class of transfers with similar characteristics, an overarching designation can be used. This means that a separate designation is not required for each transfer. Where an agency makes an overarching designation, the agency must ensure that it complies with the AAS requirements.

The elements required for individual designations as outlined above (see Section 2.4.2) should be included where possible, noting that some elements, such as date of transfer and value of transfers, may not be able to be included due to the nature of an overarching designation. However, overarching designations must be sufficiently specific to ensure it can easily be identified as to what and which agencies are covered. That is, the designation must clearly specify the nature of the transfers which are covered and it may include criteria to assist in determining if transfers falls under the overarching designation.

There are overarching designations for capital injections and therefore agencies are not required to prepare separate designations.

Example 2 – Overarching Land Transfer Designation

As an example, as per AAPP 112 – ACT Accounting Policy Paper on Accounting for Land Transactions – Transfers Between ACT Government Agencies, an overarching designation is in place to designate the return of funds to the TBA from the sale of land by EPSDD to the Suburban Land Agency (SLA) and City Renewal Agency (CRA) to facilitate the Territory's land release program is treated as a distribution to owners. This reduces the need to prepare a designation each time a transfer is required in relation to the land transactions specified in the Minute.

2.4.5 Redesignation

Transfers cannot be redesignated between contributions by owners and income. That is, where a transfer is initially designated as a contribution by owners, it cannot later be redesignated as income (Interpretation 1038 para 12). In the same way, if a transfer is initially designated as income, it cannot later be redesignated as a contribution by owners (Interpretation 1038 para 12).

3. MEASUREMENT AND ACCOUNTING

3.1 ACCOUNTING TREATMENT

3.1.1 Classification (AA Restructure Transfers)

Interpretation 1038 does not apply to restructures of administrative arrangements and no formal designation is required to recognise the transfers as a contribution by/distribution to owners.

Table 2: Accounting Treatment for AA Restructure Transfers for Government controlled NFP agencies³

	Transferor (Providing)	Transferee (Receiving)	Reference
<i>When both assets and liabilities are transferred</i>	Net contribution by owners (or distribution to owners) as appropriate		AASB 1004 para 56
	Dr Liabilities Cr Assets Dr/Cr Equity (Net Assets transferred out as part of an Administrative Restructure)	Dr Assets Cr Liabilities Cr/Dr Equity (Net Assets transferred in as part of an Administrative Restructure)	
	For each material transfer – the assets and liabilities should be disclosed by class and the counterparty (transferor/transferee) identified. For transfers that are not individually material, this should be disclosed on an aggregate basis.		AASB 1004 para 58
<i>Expenses and income attributable to the transferred activities for the reporting period⁴</i>	-	Disclosure – total expenses and items of income associated with the transferred function, separately disclosing the amounts recognised by the transferee and the transferor during the reporting period, if transferred during the financial year. If impracticable, an explanation as to why it is impracticable.	AASB 1004 para 57

Refer to the Model Financial Statements for an example of the details included in Statement of Changes in Equity and the Restructure of Administrative Arrangements note. The ACT Model Financial Statements can be found on the 'Accounting in the ACT' website at <https://www.treasury.act.gov.au/accounting>.

3.1.2 Classification (Non-AA Restructure Transfers)

Contributions by owners shall be recognised as a direct adjustment to equity when the contributed assets qualify for recognition (AASB 1004 para 48).

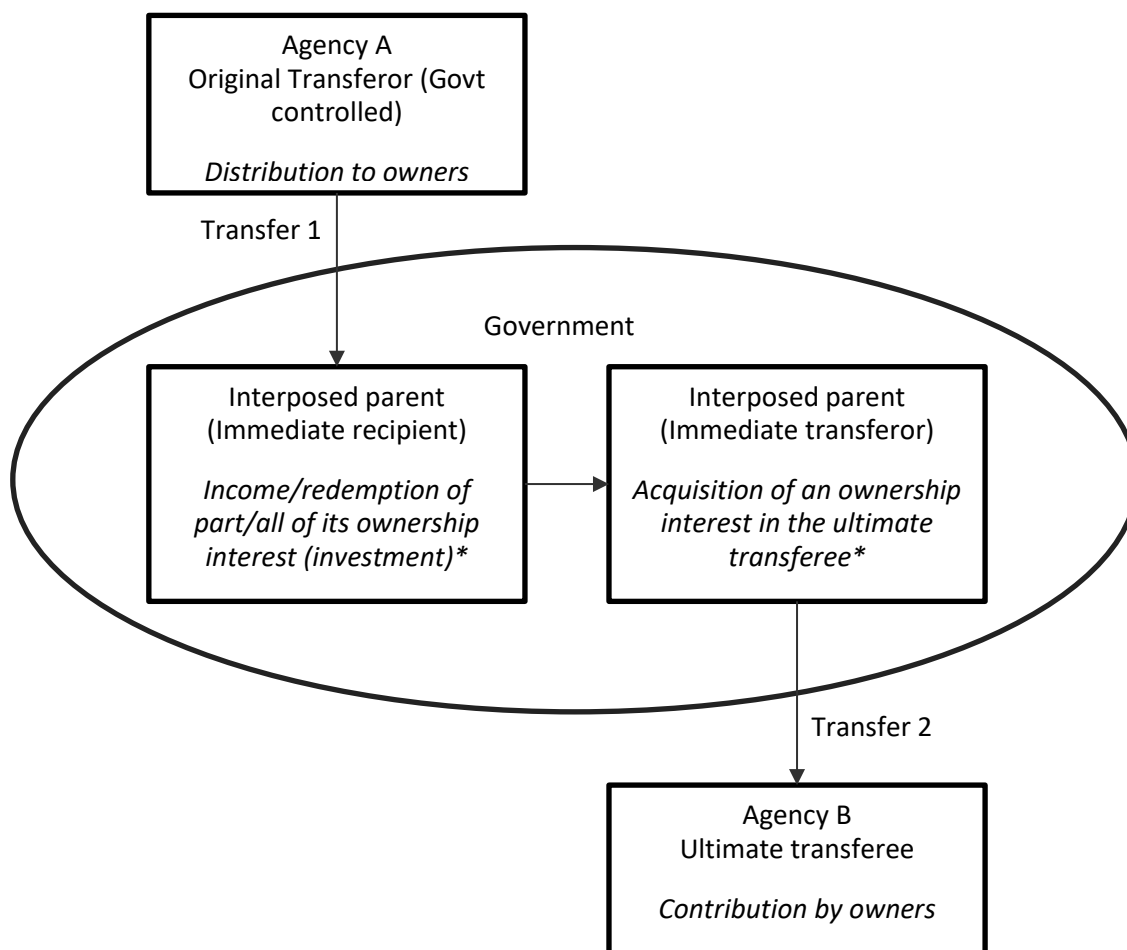
Distributions to owners shall be recognised as a direct adjustment to equity when the associated reduction in assets, rendering of services or increase in liabilities qualifies for recognition (AASB 1004 para 49).

If a transfer does not qualify for recognition as an equity transfer as outlined in Section 2, it should be recognised as revenue or expense in the Operating Statement, as appropriate.

³ The accounts listed in Table 2 are based on the Model Financial Statements where equity is reported on a net basis. Agencies will need to determine the appropriate accounts in their financial management information systems (FMIS) and enter on a gross basis.

⁴ Agencies should note that adjustments to expenses and income may be required when recognising an AA transfer in the Budget.

Diagram 2: Overview of Accounting for Equity Transfers



*If financial statements were produced for the 'Government' entity above, these two transactions would be eliminated as they are within the same entity (Interpretation 1038 para 41).

As all the entities above are related entities, there will be no impact on equity in the consolidated financial statements of the group. However, the transactions would be reflected within the individual Agency A and Agency B financial statements.

3.1.3 Consistent Reporting

Consistent reporting between the transferor and transferee is important. Generally, where the transferee recognises a contribution by owners and the transferor is either the transferee's controlling government or another entity controlled by that government, the transferor should recognise either:

- distribution to owners (where the transfer is to all or part of its ownership group); or
- acquisition of an ownership interest in the transferee (where the transferor makes the transfer to an investee).

3.2 MEASUREMENT

3.2.1 Transfer Amount (AA Restructure Transfers)

ACT Government agencies must measure assets and liabilities, transferred as part of an AA restructure, at the carrying value (book value) recorded by the transferor immediately prior to the transfer.

AASB 1004 allows assets and liabilities transferred as part of an AA restructure to be measured at either the carrying value or at fair value. The ACT Government policy has limited the options provided by the AAS to ensure consistency within the ACT Government.

Agencies must ensure that the amounts recognised by the transferor and transferee are agreed between the agencies and are consistently reported.

For assets and liabilities held at fair value, the carrying value is not likely to be materially different from the fair value. In the circumstances where the value of the asset or liability to the transferee is materially different to the transferor's carrying value, the transferee will need to revalue them upon initial recognition. As per AASB 116 paras Aus15.1 and Aus15.3, measuring these assets at fair value is not considered to be a revaluation.

Where the transferor holds an asset and/or liability at cost and the transferee will measure the asset at fair value, the transferee should revalue them upon initial recognition. As above, this is not taken to be a revaluation.

Example 3 – Measurement for AA Restructure Transfer

Agency A holds a block of land with a carrying value of \$500,000. The land is subject to revaluation every three years, with the last revaluation on 30/6/20X2. The land was transferred to Agency B as part of an AA restructure on 30/6/20X3 and will be used for a different purpose. No consideration was provided to Agency A for the block of land. Following the transfer, Agency B had the land valued and determined that the fair value, reflecting the change of purpose, was \$520,000.

Analysis

As this is part of an AA restructure, there has been no consideration provided by Agency B for the transfer of the land. Therefore, AASB 116 paras Aus15.1 and Aus15.3 stipulate that where there is a transfer for no consideration, the transferee's measurement at fair value does not constitute a revaluation.

The following journals reflect the transfer and increase in fair value.

Transferor (Agency A)

Dr	Equity (Distribution to owners)	500,000	
Cr	Property, Plant and Equipment (Land)		500,000
Recognise transfer of land to Agency B due to AA restructure.			

Transferee (Agency B)

For the transferee there are two separate transactions, one to recognise the transfer of land from Agency A and, the second, to recognise the change in valuation due to a different highest and best use as a result of the change of purpose.

Dr	Property, Plant and Equipment (Land)	500,000	
Cr	Equity (Contribution by owners)		500,000
Recognise receipt of land from Agency A due to AA restructure.			
Dr	Property, Plant and Equipment (Land)	20,000	
Cr	Grant and Other Contributions Revenue		20,000
Recognise fair value reflecting highest and best use due to change of purpose on transfer.			

3.2.2 Transfer Amount (Non-AA Restructure Transfers)

ACT Government agencies must measure assets and liabilities, that are transferred as a contribution by owner (or distribution to owner) outside of an AA restructure, at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. Fair value is determined using an exit price, that is, the price that would be received to sell an asset (i.e. a market selling price) or paid to transfer a liability. For further information regarding fair value in the context of property, plant and equipment refer to 'AAPP 118 ACT Accounting Policy Paper on Property, Plant and Equipment' once released.

When determining the fair value of assets and liabilities being transferred, this is done by reference to the fair value to the transferee (not the transferor). Where the transferor and transferee's use of the asset and/or liability is different, then fair value is likely to differ between the two agencies. Where this is the case, the transferor needs to recognise the difference in its accounts immediately prior to transfer. This includes any unrelated gains or losses on investments or debts that are transferred. Where a contribution by owner (or distribution to owner) involves cash, the amount recognised should equal the value received (or paid).

Where the transfer involves an asset and/or liability held at cost by the transferor, the transferor will need to ensure that the value of the asset and/or liability is equal to the fair value immediately prior to the transfer. Where a newly constructed asset is being transferred, fair value measured using the current replacement cost, as detailed in AASB 13, should equal the cost of the asset. Exceptions to the use of fair value measurement will only occur in situations where the applicable AAS permit or require a different method to be used, for example, if intangible assets are not valued at fair value due to lack of an active market. In this instance, agencies should use the carrying value (book value) recorded by the transferor immediately prior to the transfer.

Where the transferred asset has an asset revaluation surplus attached to it, this asset revaluation surplus cannot be transferred between the agencies, instead it remains with the transferor. The transferor can retain any remaining reserve balance in the asset revaluation surplus rather than transferring it to accumulated funds upon transfer. In the situation where the transfer results in no assets remaining in a given asset class, the asset revaluation surplus should be transferred to accumulated funds.

3.2.3 Asset Classes

Where there is an asset or group of assets to be transferred between agencies, not involved in a restructure of administrative arrangements, the transferor can separate them into their own 'class' of assets. A separate asset class enables, where required, a revaluation of the assets to be transferred without requiring their whole original asset class, such as plant and equipment, to be revalued.

Where an agency elects to use a separate asset class to recognise the assets to be transferred, the transferor should reclassify those assets to the asset class 'PPE held for transfer'. The transfer to this asset class should occur when the owner has approved the transfer as a contribution by owner or distribution to owner. If a revaluation is required to reflect the agreed value, this should be processed following the transfer to this asset class. It should be noted that the revaluation is likely to be required to be obtained prior to this so that it can be agreed upon by the owner.

If the transfer to the transferee does not occur until the following financial year, that is, there is a balance in this asset class at reporting date, it should be revalued where appropriate to ensure the value of assets is accurately reported.

Following the transfer, the transferee should recognise the assets received in the relevant assets classes, that is, they should not retain them in the asset class 'PPE held for transfer' as they do not meet the definition of this class following the transfer.

3.2.4 Negative Equity Balances

Where an equity adjustment is made due to a contribution by owner or distribution to owner that would result in Accumulated Funds being negative (i.e. an overall debit balance) the excess should be recognised as an expense by the transferor and a revenue for the transferee.

Example 4 – Insufficient Accumulated Funds Balance

Agency A transfers non-financial assets with a fair value of \$500,000 to Agency B for nil consideration. The transfer is designated as a contribution by owner. At the date of transfer, Agency A has a balance of \$400,000 in total accumulated funds.

Analysis

In general, a transfer between agencies as described above would result in the following adjustments:

Transferor (Agency A)

Dr	Equity (Distribution to owners)	500,000	
Cr	Non-Financial Assets*		500,000
Recognise transfer of non-financial assets to Agency B			

Transferee (Agency B)

Dr	Non-Financial Assets	500,000	
Cr	Equity (Contribution by owners)		500,000
Recognise transfer of non-financial assets from Agency A			

In this case, as the debit to 'Distribution to owners' in Agency A would result in a negative total accumulated funds (debit) balance of -\$100,000, the actual adjustments required would be:

Transferor (Agency A)

Dr	Equity (Distribution to owners)	400,000	
Dr	Expense	100,000	
Cr	Non-Financial Assets*		500,000
Recognise transfer of non-financial assets to Agency B where the accumulated funds balance was insufficient.			

Transferee (Agency B)

Dr	Non-financial assets	500,000	
Cr	Equity (Contribution by owners)		400,000
Cr	Revenue		100,000
Recognise transfer of non-financial assets from Agency A where the accumulated funds balance of the transferor was insufficient.			

*In practice, the de-recognition of a non-financial asset on transfer to the other agency would also involve a write-back of accumulated depreciation.

4. PRESENTATION AND DISCLOSURE

AASB 101 requires, for each component of equity (i.e. contributed equity, accumulated balance, retained earnings) disclosure of changes in equity resulting from:

- Profit or loss;
- Other comprehensive income; and
- transactions with owners in their capacity as owners (AASB 101 para 106(d)).

The transactions with owners in their capacity as owners should be further separated into the following categories:

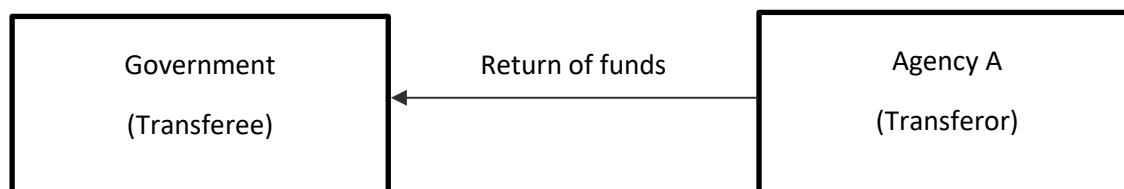
- contributions by owners;
- distributions to owners; and
- changes in ownership interests in subsidiaries that do not result in loss of control (AASB 101 para 106(d)(iii)).

Refer to the ACT Model Financial Statements on the 'Accounting in the ACT' website at <https://www.treasury.act.gov.au/accounting> for an example of the disclosure requirements.

ATTACHMENT A: ACCOUNTING JOURNALS

A1. Return of Funds to Government

Scenario: Agency A sold asset G and is required to return the funds to the Government, as per legislative requirements relating to Agency A (not relating to taxes, rates or fines). Asset G had a carrying value of \$450,000 and was sold for \$500,000.



Transferor

Dr	Cash – proceeds from sale	500,000	
Cr	Gain from sale of asset		50,000
Cr	Asset G*		450,000
Recognise the sale of Asset G for cash.			
Dr	Equity – distribution to owner	500,000	
Cr	Asset (Cash)		500,000
Recognise the transfer of equity back to the Government from sale of asset G.			

*In practice, the de-recognition of a non-financial asset would also involve a write-back of accumulated depreciation where applicable.

The transferee (the Government) would recognise the other side in a manner consistent with what is recognised by Agency A.

ATTACHMENT B: EXAMPLE OF A DESIGNATION (MINISTERIAL BRIEF)

Below is an example of a designation in the form of a Ministerial Brief. The key features required, as outlined above in Section 2.4 Designations, are identified in red boxes. These are not part of the Brief. The example below is where the designation as equity has not been included in the original decision to transfer the assets between two Directorates. Agencies should note, that as per Section 2.4.1, it is best practice to include the formal designation as part of the initial Government decision.

Note that this example is for illustrative purposes only, the relevant Ministers, Directorates etc. and the content of the Brief will need to be updated for each specific circumstance or an overarching designation completed where appropriate. Reference should also be made to the guidance included in the appropriate template.



OFFICIAL

MINISTERIAL BRIEF

Transport Canberra and City Services

To: Minister for Transport

The designation must be approved by the owners – Cabinet or Portfolio Minister for the transferring agency

Tracking No.: Click here to enter text.

Date: 31/08/202X

CC: Mr Smith, Minister for XX

All relevant Ministers should be included

From: Executive Branch Manager, XXX

Subject: Formal designation of transfer of assets as a contribution by owners

The date of the designation must be at or before the transfer, it cannot be made after the transfer.

Critical Date: 26/09/202X

Critical Reason: Formal designation required prior to transfer of assets scheduled for 1/10/202X

- UT .../.../...
- DUT .../.../...
- EGM, FABG .../.../...

Recommendations

That you:

1. note the information contained in this brief; and

Noted / Please Discuss

2. agree that this brief will act as the formal designation for the transfer to be considered a contribution by owner in equity, as required in Australian Accounting Standards.

Agreed / Not Agreed / Please Discuss

Choose an item. MLA/...../.....

Minister's Office Feedback

Background

1. Directorate A, which is currently responsible for all transport, is planning to transfer five buses surplus to its current and expected future needs to Directorate B as per Government Decision 321. Directorate B will use them for transporting elderly citizens to organised events.

Transfers designated as equity need to be a decision by owners and designated.

2. The transfer of the buses has been approved by the relevant parties, refer to Attachment A.
3. The transfer will occur on 1 October 202X.
4. As per Australian Accounting Standards, as this is not a Restructure of Administrative Arrangements, in order for the transfer of assets to be considered an equity contribution by owners, a formal designation is required to be approved by the owners.
5. A Whole of Government (WhoG) ACT Accounting Policy Paper for the treatment of Contribution by Owners (AASB 1004 and Interpretation 1038) has been issued, which outlines the requirements of the Designation.

Issues

6. In order to recognise the transfer of the assets as an equity 'contribution by owners' to Directorate B and a 'distribution to owners' by Directorate A, there must be a formal designation by the 'owners' of the transferring agency.
7. As per WhoG ACT Accounting Policy Paper 116 – Contributions by Owners (AASB 1004 and Interpretation 1038), an 'owner' can include either the Cabinet or the Portfolio Minister of the transferring agency (i.e. the transferor).

Your agreement to this brief will act as formal designation by the owners of the asset that the transfer is an equity contribution to be recognised as a 'Contribution by owners' against 'Accumulated Funds' for Directorate B and a 'Distribution to owners' against 'Accumulated Funds' for Directorate A.

Specify the component of equity the transfer (or a class of transfers) is to be added to as equity

8. Without a formal designation, Directorate A will be required to recognise the transfer as a loss arising from contribution of asset and Directorate B would recognise a revenue for the gain arising from contribution of assets.

Financial Implications

9. It is calculated that at the transfer date of 1 October 202X the buses will have a fair value of \$400,000, which is consistent with the carrying value recorded by Directorate A at the transfer date. As already agreed by the relevant parties, they will be transferred to Directorate B for nil consideration.
10. Regardless of whether the transfer is treated as equity or recognised in the Operating Statement, the transfer will be recognised at fair value, which will be \$400,000.
11. With a designation as a contribution by/distribution to owners, this will be recognised within equity and the transfer itself will have nil impact on the HNOB or Operating Result of either Directorate. It will result in an increase in assets and total equity of Directorate B and a reduction in assets and total equity of Directorate A.
12. The financial impact on the consolidated ACT Government Financial Statements will be nil as the transaction would be eliminated.

Above are the financial impacts of the given example, agencies will need to consider all aspects of their specific circumstances and evaluate the financial impacts, it may not always be nil impact.

Consultation

Internal

13. Consultation on the requirement for a formal designation has been sought with Directorate A Strategic Finance.

Cross Directorate

14. Consultation on the requirement for a formal designation has been sought with Directorate B Strategic Finance.

External

15. N/A

Work Health and Safety

16. N/A

Benefits/Sensitivities

17. The benefit is compliance with the Australian Accounting Standard and appropriate reporting of the transfer of assets.

Communications, media and engagement implications

18. N/A

Signatory Name: XXXX

Phone: 6207 XXXY

Action Officer: YYYY

Phone: 6207 XXXX

Attachments

Attachment	Title
Attachment A	Signed Minute for the Transfer of Buses from Directorate A to Directorate B

AAPP 116 – Contributions by Owners

Version	Date	Author	Revision notes
1.0	April 2023	Financial Reporting and Framework Branch	First release



Chief Minister, Treasury and Economic
Development Directorate

April 2023