FINANCIAL REPORTING REQUIREMENTS FOR QUEENSLAND GOVERNMENT AGENCIES – ADDENDUM TO BE READ IN CONJUNCTION WITH 2008-09 FINANCIAL REPORTING REQUIREMENTS

REVISION OF APG 13 FOLLOWING RELEASE OF LAND UNDER ROAD POLICY

APG 13 ACCOUNTING FOR NON-RECIPROCAL TRANSFERS BY OWNERS

Introduction

This APG provides guidance on the definition, recognition and disclosure requirements of non-reciprocal transfers of assets and liabilities undertaken by the 'owners' of Queensland's public sector entities.

Prescribed Requirements

The following standards, interpretations and framework are applicable:

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

Scope of Public Sector Entities

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.

For the purposes of this accounting policy guideline, Queensland's statutory bodies are considered to be "owned" by the Queensland Government. This means that non-reciprocal transfers to/from statutory bodies and other wholly-owned Queensland Government entities, that meet the criteria set out below, are to be accounted for as contributions by/distributions to owners by both the transferor and transferee.

Non-Reciprocal Transfers Undertaken by Owners

Transfers of assets and liabilities are either reciprocal or non-reciprocal. A non-reciprocal transfer is where a transferee and transferor directly receive/sacrifice assets and/or liabilities without giving/receiving approximately equal value in exchange. Asset/liability transfers as a consequence of machinery-of-Government changes are examples of non-reciprocal transfers.

For the purposes of this accounting policy guideline, entities 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).

Application of Criteria for Contributions by / Distributions to Owners

Interpretation 1038 states that a transfer of assets/liabilities is a ‘contribution by owners’ (or ‘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 transferee which can be sold, transferred or redeemed; or
- formal designation of the transfer (or a class of such transfers) by the government/transferor or a government-controlled parent of the transferor as forming part of (or constituting a redemption of) the transferee’s contributed equity, either before the transfer occurs or at the time of the transfer.

In the context of these Interpretation 1038 criteria, categories of situations where there would be contributions by/distributions to owners are outlined in the following sub-sections.

Appropriated Equity Adjustments

Under the *Financial Administration and Audit Act 1997* (FA&A Act) the owners’ interest in a department can be adjusted directly against contributed 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.

Statutory bodies do not receive appropriations under the FA&A Act. Generally, any funding from Government to statutory bodies is by way of grants, which are accounted for pursuant to AASB 1004 *Contributions* 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. Refer also to APG 3 *Contributions, Grants and Government Assistance Received*.

Machinery-of-Government Changes

Departments undertake the administrative functions of Government. As circumstances change, these arrangements may be restructured. In relation to some or all of a department’s functions, this restructuring may take the form of creation of a new department, amalgamation with another department, cessation, or divestment of certain functions to another department. These transfers are referred to as machinery-of-Government (MOG) changes and are formalised by Government gazettal of an administrative order. This gazettal represents the formal designation required under Interpretation 1038 in respect of the associated transfers of assets/liabilities between departments.

The transferor and transferee 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) – representing the State as the ‘owner’) as soon as practicable after the transfer has occurred.

The effective date of a MOG transfer is the date of gazettal of the MOG change. However, section 40AAA of the *Financial Administration and Audit Act 1977* sets out certain provisions for the preparation of general purpose financial statements where gazettal of a MOG change occurs on a day other than the first day of a month and the transferor department is not abolished. Section 40AAA does not apply where the transferor is abolished so under these circumstances transfers take effect from the abolition date (for both the transferor and transferee).

Land Under Roads

Untitled land under roads is an administered asset of the Department of Environment and Resource Management. In relation to transfers of land under roads, a once-off formal designation (transfer notice) must be made by those agencies that have acquired land designated as roads and are for the first time transferring such land to the Department of Environment and Resource Management.

To be effective, this transfer notice must state that:

- the notice is enduring in nature;
- all land designated as roads in the agency's books is to be transferred to the Department of Environment and Resource Management at least before the end of the each reporting period;
- the transfers are a capital adjustment, i.e. to be adjusted against the contributed equity of the transferor and transferee; and
  at least once a year, the transferee/transferor agencies must agree the value of all land under roads transferred during that financial year or accept the value as determined as determined by the owner (i.e. Cabinet, Cabinet Budget Review Committee, Executive Council or portfolio Minister(s) – representing the State as the 'owner') or Treasury Department.

For further information on the land under roads policy refer to the following website: http://www.treasury.qld.gov.au/office/knowledge/docs/non-current-asset-policies/index.shtml

Other Non-reciprocal Transfers to/from Wholly-owned Queensland Public Sector Entities

A non-reciprocal transfer of assets/liabilities to another wholly-owned Government agency would be considered a contribution by owners (or distribution to owners) and accounted for directly against equity if:

- it was approved by the 'owners' i.e. Cabinet, CBRC, Executive Council or portfolio Minister(s) for the agencies concerned;
- the approval clearly states that the transfer is a capital contribution/distribution which is to be adjusted against the transferor's and transferee's contributed equity (constituting the formal designation required under Interpretation 1038); and
- that approval was obtained at or before the time of the transfer.

The formal designation may occur in a variety of ways, including minutes of a decision by the governing body of the contributor, correspondence to the transferor and transferee, legislation, administrative orders, directions issued by or on behalf of portfolio Ministers for the agencies concerned. Whatever means is used, it must specify that the transfer is to be adjusted against the transferee's and transferor's contributed equity. Pursuant to paragraph 12 of Interpretation 1038, transfers designated as contributions by owners must not be redesignated as income, and vice versa.

The effective date of non-reciprocal transfers under this category is the date when control of the assets/liabilities, and associated obligations, pass to the transferee.

The transferor and transferee 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) – representing the State as the 'owner') as soon as practicable.

Accounting for Non-Reciprocal Transfers

The following sub-sections explain the accounting treatments for non-reciprocal transfers, depending on the nature of the entities involved.

Non-reciprocal Transfers to/from Wholly-Owned Queensland Public Sector Entities

Transfers of assets and liabilities referred to in the above sections "Machinery-of-Government Changes", "Land Under Roads" and "Other Non-reciprocal Transfers to/from Wholly-owned Queensland Public Sector Entities" must be accounted for as contributions by/distributions to owners and adjusted against contributed equity. These equity adjustments are also known as non-appropriated equity adjustments.

The agency 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. Conversely, the receiving agency should recognise a matching increase in assets/liabilities and an equity injection/withdrawal.

Where the balance of the contributed equity account is insufficient to absorb the non-appropriated equity adjustment, the remainder of the adjustment is made to retained earnings.

Assets transferred at no value, or for nominal consideration, must be recognised at the amounts at which they were recognised by the transferor immediately prior to the transfer.

In relation to property, plant and equipment, both the gross value and accumulated depreciation (as per the records of the transferor at the date of transfer) should be recognised by the transferee, where practicable, as an indication of the age and life cycle of the assets.

Non-reciprocal Transfers to/from Non-Queensland State Public Sector Entities (e.g. to/from Local and Commonwealth Governments, Universities and Private Sector Entities)

Non-reciprocal transfers of assets and liabilities between a department and entities considered (for financial reporting purposes) to be external to the Queensland public sector must be adjusted through the department's Administered Income Statement, provided the transfers have been approved by Cabinet, CBRC, Executive Council or portfolio Minister(s) for the agencies concerned. However, if a department receives output funding to compensate for the loss on disposal of the asset, the transfer must be accounted for in the department's Controlled Income Statement.

For a department to effect the adjustment in its Administered Income Statement, an initial adjustment should be made against the contributed equity account (and/or retained earnings, where the balance of contributed equity is insufficient) in the controlled accounts of the department, and then an administered expense/revenue ultimately needs to be recognised.

For example:

Contributed Equity/Retained Earnings (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)			
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 must be adjusted through the Income Statement. 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 some departments, statutory bodies do not have administered activities and therefore, the adjustment cannot be effected in an Administered Income Statement.

Disclosure Requirements

Non-reciprocal transfers undertaken by a department or statutory body at the direction of Executive Government should be disclosed as a note to the financial statements, where material. Both the transferor and transferee should disclose, as a note to the financial statements, the total amount of assets and liabilities recognised/transferred.

For each activity or project transferred as part of a MOG change, the receiving department must disclose, as a note to the financial statements, the expenses and revenues incurred for the whole period and the revenues and expenses earned or incurred by the transferor department prior to the transfer of the activity.

Should MOG changes result in cash flows from/to departments, these cash flows should be disclosed in the Cash Flow Statement under the heading ‘Cash Flows from Financing Activities - Equity Injections and Equity Withdrawals’.

Where a department undergoes MOG changes or other non-reciprocal transfers at the direction of Executive Government that result in significant changes to the activities that the department carries out, comparative amounts throughout the financial statements for the preceding reporting period need not be re-cast or adjusted to reflect the transfer of activities between departments as a result of such changes. A note to the financial statements must indicate the nature and extent of the significant change in activities.