Deeming or designating transfers of assets and liabilities as ‘contributions by owners’ (equity)
This guide contains material that has been prepared to assist Commonwealth entities and companies to apply the principles and requirements of the Public Governance, Performance and Accountability Act 2013 and associated rules, and any applicable policies. In this guide the: mandatory principles or requirements are set out as things entities and officials ‘must’ do; and actions, or practices, that entities and officials are expected to take into account to give effect to those and principles and/or requirements are set out as things entities and officials ‘should consider’ doing.
**Audience**

This Guide applies to: CFOs and CFO Units in all Commonwealth entities that are in the process of transferring assets and/or liabilities to/from another Commonwealth entity.

*This guide is designed to be read in conjunction with the relevant Australian Accounting Standards.*

**Key points**

- **Policy:** Outside of Machinery of Government (MoG) transfers, where a Government decision requires the non-reciprocal transfer of assets/liabilities between wholly-owned government entities, this Guide provides a basis for certain transfers to be accounted for as contributions by owners.

- **Purpose:** To direct the above entities as to when it is appropriate to have transfers of assets and liabilities deemed or designated ‘contributions by owners’ (equity) in accordance with Interpretation 1038 *Contributions by owners made to wholly-owned public sector entities* and/or AASB 1004 *Contributions*.

- **Scope:** Transfers within a formal MoG process are excluded from this Guide. Accounting for MoG transfers is covered by Part H of the Commonwealth Entities Financial Statements Guide.

- **Aim:** To provide guidance on specific accounting and reporting topics but does not take precedence over the financial reporting regulatory framework, which encompasses the Australian Accounting Standards (AAS) and the PGPA Financial Reporting Rule (FRR).

- **Reference previous guidance:** This guide replaces Finance *Brief* 40.

**Resources**


**Applicable accounting pronouncements**

- AASB 1004 *Contributions*

- Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*

**Commonwealth Entities Financial Statements Guide (incorporating the FRR)**

- Part H Restructures

**Contact information**

For further information or clarification, please email Budget Estimates and Accounting (BEA) at accountingpolicy@finance.gov.au.
Policy

1. Outside of MoG transfers, where a Government decision requires the non-reciprocal transfer of assets/liabilities between wholly-owned government entities, this Guide provides a basis for this transfer to be accounted for as contributions by owners.

Background

2. Transfers of assets and/or liabilities may be treated as contributions by owners:
   - when deemed by virtue of being in the nature of a business transfer (in accordance with AASB 1004 restructure of administrative arrangements provisions); or
   - through formal designation.

3. Transfers of assets and/or liabilities deemed or designated as contributions by owners are accounted for through the statement of financial position (adjustments to assets, liabilities and equity).

4. Transfers of assets and liabilities not deemed or designated to be contributions by owners are to be taken through the statement of comprehensive income (recognition of expense and revenue).

Guidance

5. Appendix 1 provides a process map to assist entities with the below guidance.

Contributions by owners

6. AASB 1004 defines contributions by owners, including government restructure of administrative arrangements, and prescribes the accounting treatment. Interpretation 1038 provides for the government to designate particular transfers as being contributions by owners.

7. For a transfer to be considered a contribution by owners it must first be in the nature of a contribution. The starting point in considering whether or not the transfer is a contribution is that there can be no consideration given, eg, loans, or payments for goods and services, are not contributions. Additionally, the transfer must be:
   - between wholly-owned government entities; and
   - supported by a government decision.

8. For a contribution to be considered a contribution by owners and hence treated as equity, it must fall into one of the following categories:
   a. Transfer of a "business"; or
   b. Formally designated.

---

1 AASB 1004.A defines contributions as “non-reciprocal transfers to the entity”.
2 Portfolio Budget Statement disclosure of itself does not constitute a government decision.
Transfers of a “business”

9. Where an entity has a transfer that is in the nature of a contribution, the following principles should be considered in determining whether or not it is a business transfer.

10. AASB 1004 paragraphs 54-59 Restructure of Administrative Arrangements provide that transfers of assets and liabilities may, in particular circumstances, be treated as contributions by owners. Appendix A of AASB 1004 limits the scope of restructuring of administrative arrangements to the “transfer of a business (as defined in AASB 3 Business Combinations)”.

   A business is an “integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants”.3

11. In determining whether the transferred assets and liabilities have a return component, entities need to consider that in the public sector the return component will have a broader context and it may be necessary to consider things like consolidation and alignment of program outcomes, and/or additional functionality and/or reduced costs.

12. For a transfer to be regarded as a business transfer, entities need to consider the basis upon which the decision to transfer is made. To qualify as a business transfer the entity will need to demonstrate that it represents a decision by the government to reorganise its activities. Examples of such evidence would include legislation or Cabinet decision. Outside of this it would be expected that letters between the relevant portfolio minister/s and the Minister for Finance would be sufficient.

13. Authority does not of itself remove the obligation of the entities to demonstrate compliance with the requirements of AASB 1004 and this Guide.

Business transfer criteria

14. The following criteria are required for a business transfer to be considered a contribution by owners:

   • The transfer component meets the definition of a “business” if it:
     o has a clearly defined set of integrated activities;
     o has clearly defined policy purpose or return element; and
     o includes the normal elements that would be expected of any business e.g. staff, systems, clients/customers, fixed assets, liabilities etc.

   • The transfer represents a decision by government to reorganise its activities and this view is supported by legislation or other appropriate authority.

15. The transfer of an individual asset/liability or a group of stand-alone assets/liabilities cannot be considered a business transfer.

3 AASB 3.A
Formal designation

16. Where an entity has a transfer that is not a business, the following principles should be applied when seeking to have the transfer designated as a contribution by owners.

Designated equity criteria

17. The following criteria are required for a designated contribution by owners:

- There is 'legislation or other authority'\(^4\) from the government supporting the designation. Non-legislative designation must have written agreement from both the transferor and transferee portfolio minister/s\(^5\) and where required the Minister for Finance:
  - Designations with current net value less than the Gateway\(^6\) financial thresholds can be made by portfolio minister/s;
  - All other designations must be referred to the Minister for Finance; and
  - The agreement cannot seek to re-designate a previous designation.

- The designation must be made prior to or at the time of transfer.

18. Agreement made by the portfolio minister/s does not remove the obligation of the entities to demonstrate compliance with the requirements of Interpretation 1038, the FRR and this Guide. For this reason, it is recommended that entities discuss compliance issues with their auditors prior to seeking designation.

19. The intention to influence the entity’s operating position has no bearing on the character of a transfer.

20. Once the transfer has taken place the transfer cannot be re-designated.

21. Entities must allow sufficient time for the portfolio minister/s, and where relevant, the Minister for Finance to properly consider the designation request.

Accounting treatment

22. Transfers deemed or designated as equity transfers (i.e. contribution to/by owners) require the same accounting treatment.

23. Assets and liabilities are to be transferred at their net book value\(^7\) immediately prior to the transfer.

24. The transferring entity must treat the transfer as a distribution to owners and derecognise the item/s, including changes in equity, in accordance with relevant AAS and/or FRR.

---


\(^5\) Where entities are within the same portfolio this may be the same minister.

\(^6\) Gateway financial thresholds are available via Finance website.

\(^7\) Entities are not required to revalue prior to transfer, however net book value should be adjusted for any errors prior to transfer.
25. The gaining entity must treat the transfer as a contribution by owners and recognise the item/s, including changes in equity, in accordance with relevant AAS and/or FRR using the same net book value as the transferring entity.

**Disclosure requirements**

26. The PRIMA Forms provide guidance for entities on the “Restructuring” disclosures in preparing their financial statements.

**Seeking support from the Minister for Finance**

27. When the portfolio minister/s is required to seek the support of the Minister for Finance, it is requested that a copy of the correspondence is also sent to the Assistant Secretary, Budget Estimates and Accounting within the Department of Finance (Finance). This will enable Finance to brief the Minister for Finance in a timely manner.
Illustrated process for identifying and accounting for transfers of assets and liabilities as ‘contributions by owners’ (equity)

This process map is to be used in conjunction with the above Guide and therefore does not consider transfers within a formal Machinery of Government process.

Overview of the four step process

1. Establishing criteria
2. Business transfer criteria
3. Designated equity criteria
4. Accounting treatment

STEP 1: ‘Contributions by owners’ (equity) establishing criteria

A "contribution" (as defined in AASB 1004.A) involves a government decision to transfer assets between government controlled entities.

STOP:

If any of the above criteria are NOT present, the transfer cannot be considered a ‘contributions by owners’ (equity) for the purposes of the Guide. Go no further than this step and account for the transfer through the statement of comprehensive income in accordance with Australian Accounting Standards (AAS).
STEP 2: Business transfer criteria

QUESTIONS TO THINK ABOUT:

- What is being transferred (i.e. individual/group of stand-alone/integrated assets and liabilities)?
- Why is it being transferred (i.e. policy purpose & return element, e.g. consolidation and alignment of program outcomes, additional functionality, and/or reduced costs etc)?
- Is there evidence that the transfer is the result of a Government decision (i.e. legislation, Cabinet decision, ministerial letters)?

CRITERIA (by level):

"Restructure of administrative arrangements" (as defined in AASB 1004.A)

"Business" (as defined in AASB 3.A)

Integrated set of activities and assets
Policy purpose and return element
Normal elements expected of any business
Transfer reorganises activities
Legislation or other authority (see s26 of the FRR)

Government decision to restructure

STOP:

If the transfer meets ALL of the above criteria, the transfer shall be deemed equity in nature and does not require formal designation. Go to Step 4 for the statement of financial position accounting treatment.

If the transfer does NOT meet all of the above criteria, and the government controlled entities are:

- BOTH wholly-owned government entities, proceed to the designated equity criteria (Step 3).
- Not wholly-owned, Interpretation 1038 prohibits designation. Go no further than this step and account for transfer through the statement of comprehensive income in accordance with AAS.
STEP 3: Designated equity criteria

STOP:

1) Has the transfer already occurred?

2) Has the transfer previously been designated as income?

If the answer is YES, to either of these questions, formal designation as equity is prohibited under Interpretation 1038. Proceed to Step 4 for the statement of comprehensive income accounting treatment.

WARNING:

Once designated as equity, the transfer cannot be redesignated.

PROCEDURES:

Equity?

• What is the nature of the transfer (i.e. should the transfer be treated as equity)?
• If the transfer is not equity in nature it should be taken through the statement of comprehensive income (see Step 4). Otherwise, go to “discuss” compliance below.

Discuss

• It is recommended that compliance issues are discussed with the entities' auditors prior to seeking designation.
• Note: Seeking designation from Ministers does not remove the obligation to demonstrate compliance with the requirements (i.e. Interpretation 1038, the FRR and this Guide).

Seek

• Is the current net value of the transfer less than the Gateway financial thresholds?
• Yes - Seek formal designation between the transferor and transferee portfolio minister(s)*.
• No - Relevant portfolio minister(s) as above AND agreement from the Finance Minister - where this is required, send a copy of the correspondence to the Assistant Secretary, Budget Estimates and Accounting within the Department of Finance.
• Note: The designation must be in the form of a written agreement.

*Where entities are within the same portfolio, one Minister may approve the proposal (subject to the Finance Minister’s involvement where the current net value of the transfer is NOT less than the threshold).

STOP:

Was the formal written agreement (designation) obtained prior to or at the time of transfer?

• Yes - equity designated (see Step 4 statement of financial position treatment).
• No – account for the transfer through the statement of comprehensive income (see Step 4) as equity treatment is prohibited by Interpretation 1038.

Note: Entities MUST remember to allow sufficient time for designation requests to be considered.
STEP 4: Accounting treatment

The below journal entries are simplified for the purpose of illustrating the accounting treatment.

STATEMENT OF FINANCIAL POSITION TREATMENT:

Deemed and designated contributions by/distributions to owners (equity) require the same treatment in accordance with AASB 1004 paragraphs 54-56. An example of AASB 1004.54 is as follows:

Transferring entity:
Dr. Distribution to owners (equity)
Cr. Asset
Derecognition of the asset transferred

Gaining entity:
Dr. Asset
Cr. Contribution by owners (equity)
Recognition of the asset

STATEMENT OF COMPREHENSIVE INCOME TREATMENT:

Transfers not deemed or designated as equity are accounted for through the statement of comprehensive income, as follows:

Transferring entity:
Dr. Expense
Cr. Asset
Derecognition of the asset transferred

Gaining entity:
Dr. Asset
Cr. Gains*
Recognition of the asset

*As the transfer is unlikely to be part of the gaining entity's ordinary activities, otherwise 'Revenue' may be appropriate.

Note: The result on the General Government Sector for transfers between wholly-owned government entities is a nil impact because the transfer is internal to Government.