Australian Government
Department of Finance

Deeming or designating transfers of assets and liabilities as 'contributions by owners' (equity)

Resource Management Guide No. 123

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Contact us

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The words '**must**', '**required**', '**requires**' and '**requiring**' denote mandatory compliance by accountable authorities/officials. The use of the words 'could', 'may', 'encouraged' or 'consider' convey non-mandatory guidance. The guidance to which these words relate may or may not be applied by accountable authorities/officials in their approach to resource management, depending on the operating circumstances of the entity and its appetite for risk.

Contents

Audience

This Resource Management Guide (RMG) applies to all relevant officials, particularly chief financial officers and finance teams, in Commonwealth entities that are in the process of transferring assets and/or liabilities to, or from, another Commonwealth entity.

For ease of reference and presentation, the RMG uses 'entities' to mean Commonwealth entities, as defined by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

Key points

This guide:

- outlines the criteria for certain transfers of assets (or assets and liabilities) between wholly-owned Commonwealth entities, for recognition as 'contributions by owners' in accordance with:
  - *AASB 1004 Contributions* (AASB 1004)
  - *Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities* (Interpretation 1038).
- provides the process for identifying transfers as contributions by owners and the required accounting treatment, with a step-by-step process guide at Appendix 1
- excludes accounting and reporting requirements for transfers due to a machinery of government (MoG) process – RMGs on MoG processes are listed at Resources (see below)
- replaces *Deeming or designating transfers of assets and liabilities as 'contributions by owners' (equity)* (RMG 123), dated May 2017.

Resources

This guide is available on the Department of Finance (Finance) website.

Other relevant publications include:

- *Accounting for machinery of government changes (RMG 118)*
- *Reporting requirements following machinery of government changes (RMG 119)*
- Part 7 of *Commonwealth entities financial statements guide — 2019-20 (RMG 125)*
- relevant Australian Accounting Standards (AAS)
- *Public Governance, Performance and Accountability Amendment (2020 Measures No. 2) Rules 2020.*

Introduction

1. Transfers of assets and/or liabilities may be treated as contributions by owners:
   - when they are deemed to be in the nature of a business transfer (in accordance with AASB 1004 restructure of administrative arrangements provisions), or
   - through formal designation.
2. Transfers of assets and/or liabilities that:
   - are deemed or designated as contributions by owners, are accounted for through the statement of financial position, as adjustments to assets, liabilities and equity
   - are not deemed or designated as contributions by owners, are to be taken through the statement of comprehensive income, recognised as revenues and/or expenses.

Part 1 – Defining, identifying and accounting for contributions by owners (equity)

3. AASB 1004 includes definitions for contributions and contributions by owners, and prescribes the required accounting treatments. Interpretation 1038 provides for the government to designate certain transfers as contributions by owners.

Extract: AASB 1004.A - Definitions

Contributions: Non-reciprocal transfers to the entity.

Contributions by owners: Future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the entity which:

(a) conveys entitlement both to distributions of future economic benefits by the entity 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 entity being wound up; and/or

(b) can be sold, transferred or redeemed.

4. A step-by-step guide for identifying and accounting for transfers of assets and liabilities as contributions by owners (equity) is included at Appendix A.

Contributions by owners

5. For a transfer to be considered a contribution by owners, as a starting point, it must be:
   - in the nature of contributions (ie a transfer that is not made under consideration, such as provision of loans or payments for exchange of approximately equal value of goods or services)
   - a transfer that is between wholly-owned government entities

- a transfer that is supported by a government decision.

6. For a contribution to be considered a contribution by owners and treated as equity, it must be categorised as either a 'transfer of a business' or 'formal designation'.

Transfer of a business

7. 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.
8. Paragraphs 54-59 of AASB 1004 provide that, in particular circumstances, transfers of assets and liabilities may be treated as contributions by owners. These paragraphs only apply to government departments and other government controlled not-for-profit entities.
9. Appendix A of AASB 1004 limits scope of restructuring of administrative arrangements to the transfer of a 'business', as defined in AASB 3 *Business Combinations* (AASB 3).

Extract: AASB 3.A – Defined terms

Business: An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

10. In determining whether the transferred assets and liabilities have a return component, entities need to consider that in the public sector the return component has a broader context. For Commonwealth entities, it may be necessary to consider things like consolidation and alignment of program outcomes, additional functionality and/or reduced costs.
11. 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 needs to demonstrate that it is acting on a government decision to reorganise its activities (eg evidenced by legislation or a Cabinet decision).
12. 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

13. For a business transfer to be considered a contribution by owners:
    - the transfer component must meet the definition of a business – ie it must:
        - have a clearly defined set of integrated activities
        - have clearly defined policy purpose or return element
        - include the normal elements that would be expected of any business (eg staff, systems, clients/customers, fixed assets, liabilities etc)

- the transfer must represent a decision by government to reorganise its activities, supported by legislation or other appropriate authority.

14. The transfer of an individual asset/liability or a group of standalone assets/liabilities cannot be considered a business transfer.

Formal designation

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

Designated equity criteria

16. The following criteria need to be satisfied for a transfer to be designated as a contribution by owners:

    - There is legislation or other authority from the government supporting the transfer of assets or liabilities – for more information, see Part 7 of RMG 125.
    - For non-legislative transfers:
        - below $10 million in net book value, as a minimum requirement, there is written agreement between the relevant accountable authorities in the form of an exchange of letters – transfers must be consistent with broader government policy
        - above $10 million in net book value but below the Gateway Review Process (Gateway) financial thresholds, there is written agreement from the relevant portfolio minister/s – for entities in the same portfolio, this may be the same minister.
    - For transfers above the Gateway financial thresholds there is agreement of the Minister for Finance (Finance Minister).

Gateway financial thresholds:

Gateway applies to proposals which require government approval, are assessed to be high risk, and satisfy the following financial thresholds:

- projects with a total cost estimated to be $30 million or more for procurement or infrastructure, or
- projects with a total cost estimated to be $30 million or more, including an ICT component of at least $10 million, or
- programs with a total cost estimated to be greater than $50 million.

17. Where there is written evidence that a minister has authorised the transfer of an asset or liability, the designation as equity can be made by the accountable authority of the transferring entity (transferor) subject to the requirements of AASB 1004 and Interpretation 1038 as outlined below.

18. The:
    - agreement cannot seek to re-designate a previous designation
    - transfer must be in the nature of a contribution by owners
    - transferred assets and/or liabilities must be classified consistently between transferor and transferee
    - transfer must be between wholly-owned government entities (under paragraph 25 of Interpretation 1038, designation as contribution by owners would be insufficient if the transferee is not wholly-owned by the transferor or its controlling government)
    - designation must be made prior to or at the time of a transfer by the end of the financial reporting period (30 June) during which the transfer occurs.
19. It is recommended that entities discuss compliance issues with their auditors and inform their Agency Advice Unit (AAU) in Finance prior to seeking designation. 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 designation request to be properly considered before approval, not later than 30 June of the financial year during which a transfer occurs.

Accounting treatment

22. Transfers deemed or designated as equity transfers (ie contribution to/by owners) require the same accounting treatment.
23. Assets and liabilities are to be transferred at their net book value immediately prior to the transfer. Entities are not required to revalue prior to transfer, however net book value should be adjusted for any errors prior to 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 the relevant AAS and/or the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR)*.
25. The gaining entity (transferee) 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 the FRR, using the same net book value as the transferring entity.

Part 2 – Disclosure requirements

26. *Primary reporting and information management aid (PRIMA) Forms of Financial Statements* provide guidance for entities on 'Restructuring' disclosures, for preparing financial statements.

Part 3 – Seeking support from the Finance Minister

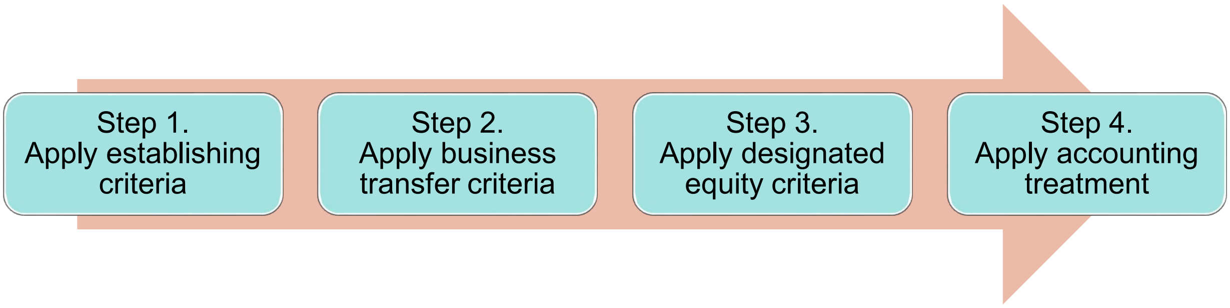
27. When the accountable authorities and the portfolio minister(s) are required to seek the support of the Finance Minister, it is requested that all correspondence is also copied to the relevant AAU in Finance and the Assistant Secretary, Accounting and Framework Branch by emailing: Accounting Policy.

28. This will enable Finance to brief the Finance Minister in a timely manner.

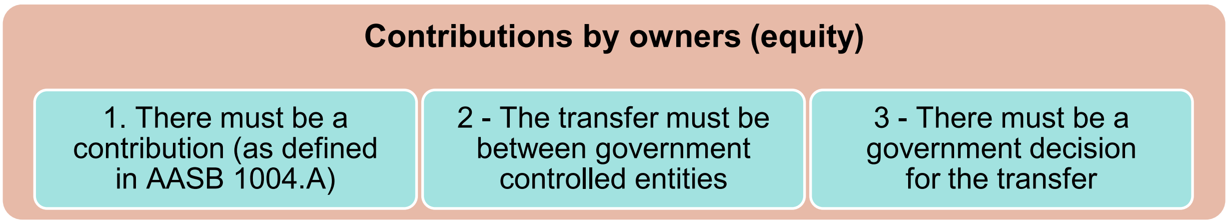
Appendix 1 – Step-by-step process guide

This is a step-by-step process guide to identifying and accounting for transfers of assets and liabilities as 'contributions by owners' (equity). It is to be used in conjunction with information in this RMG. It does not consider transfers within a formal MoG process.

Overview of the four-step process



Step 1: Apply establishing criteria for contributions by owners (equity)



Before going to the next step

If any of the above criteria are not present:

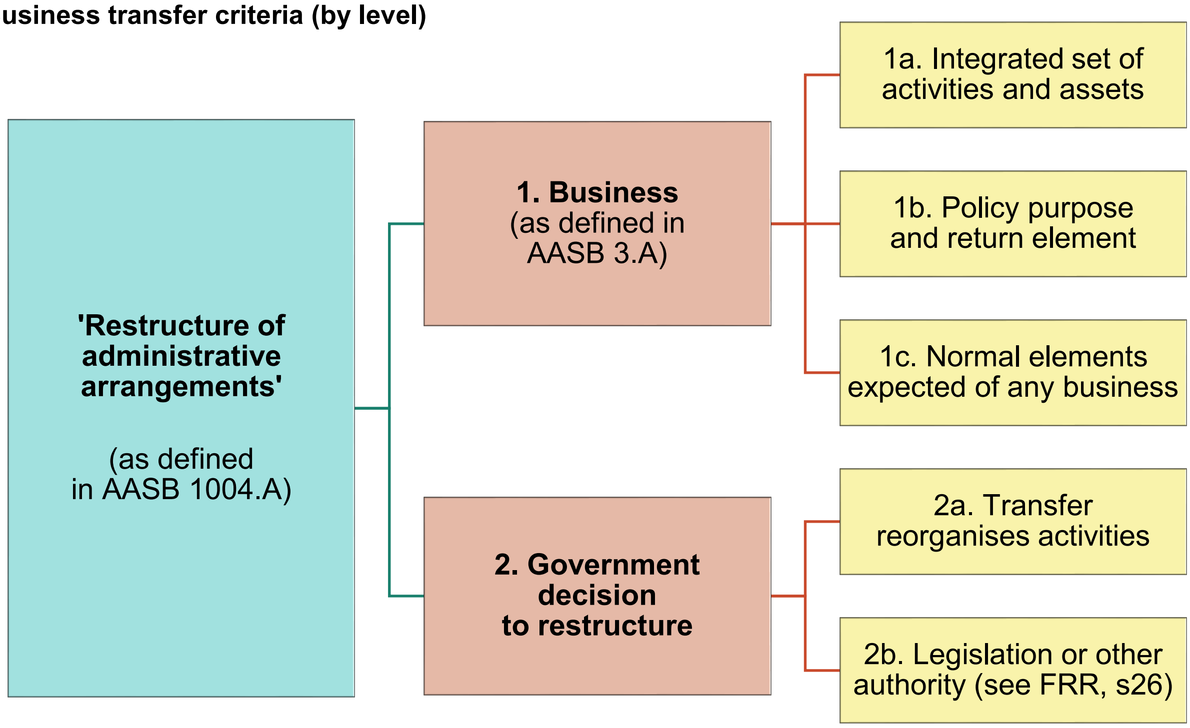
- the transfer cannot be considered a 'contributions by owners' (equity) for the purposes of this RMG
- do not go to Step 2 – account for the transfer through the statement of comprehensive income in accordance with the AAS.

Step 2: Apply business transfer criteria

Issues to consider:

- What is being transferred (ie individual/group of standalone/integrated assets and liabilities)?
- Why is it being transferred (ie policy purpose and return element, eg consolidation and alignment of program outcomes, additional functionality and/or reduced costs)?
- Is there evidence that the transfer is the result of a government decision (ie legislation, Cabinet decision or ministerial correspondence)?

Business transfer criteria (by level)



Before going to the next step

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 - Statement of financial position 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 Step 3 to apply the designated equity criteria
- not wholly-owned, Interpretation 1038 prohibits designation – go no further and account for transfer through the statement of comprehensive income in accordance with AAS.

Step 3: Apply designated equity criteria

Issues to consider:

- Has the transfer already occurred?
- Has the transfer previously been designated as income?

If the answer to either question is YES, formal designation as equity is prohibited under Interpretation 1038 – go to Step 4. Statement of comprehensive income treatment.

Procedure

Confirm equity	• What is the nature of the transfer – confirm whether it should be treated as equity (see Note 1). If this transfer: ○ **is not equity in nature** – it should be taken through the statement of comprehensive income (at Step 4) ○ **is equity in nature**. Go to 'Discuss compliance'.
Discuss compliance	• It is recommended that compliance issues are discussed with the entities' auditors prior to seeking designation (see Note 2).
Seek formal agreement (see Note 3)	• If the current net value of the transfer less than $10 million – seek CEOs agreement through an exchange of letters • If the current net value of the transfer more than $10 million but below the Gateway financial thresholds – seek formal designation between the transferor and transferee portfolio minister(s) (for entities 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 $10 million threshold). • If the current net value of the transfer is more than $10 million but not below the Gateway financial thresholds (refer page 7) – seek agreement from the portfolio minister(s) plus agreement from the Finance Minister, where required. Copy correspondence to the relevant AAU, and Assistant Secretary, Accounting and Framework Branch via Accounting Policy.

Note 1: Once designated as equity, the transfer cannot be re-designated.

Note 2: Seeking designation from ministers does not remove the obligation to demonstrate compliance with the requirements (ie Interpretation 1038, the FRR and this RMG).

Note 3: The designation must be in the form of a written agreement and all correspondence must be completed by 30 June of the financial year in which the transfer occurs. Entities must allow sufficient time for designation requests to be considered.

Before going to the next step

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

- If yes – equity is designated – go to Step 4. Statement of financial position treatment

- If no – equity treatment is prohibited under Interpretation 1038 – go to Step 4. Statement of comprehensive income treatment.

Step 4: Apply accounting treatment

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

Statement of financial position treatment

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

Transferring entity (Transferor):

Dr/Cr	Account	Explanations
Dr	Equity	Recognising distribution to owner through equity, equal to the value of the asset transferred
Cr	Asset	De-recognition of the asset transferred

Gaining entity (Transferee):

Dr/Cr	Account	Explanations
Dr	Asset	Recognition of the asset
Cr	Equity (contribution by owners)	Recognising contribution by owner through equity, equal to the value of asset transferred

Note 4: Entities will also be required to reflect movements in the appropriate movement account in the Central Budget Management System.

Statement of comprehensive income treatment

Transfers not deemed or designated as equity are accounted for through the statement of comprehensive income. An example of paragraph 42 of AASB 1004 is as follows:

Transferring entity (Transferor):

Dr/Cr	Account	Explanations
Dr	Liability	Extinguishing the liability in respect of the employee benefits transferred
Cr	Cash/ Cash payable	Recognising the payment equivalent to the liability extinguished

Gaining entity (Transferee):

Dr/Cr	Account	Explanations
Dr	Cash/ Cash receivable	Recognising an increase in assets (cash or cash receivable) equivalent to the liability assumed
Cr	Liability	Recognising the liability assumed for taking on obligations to pay accrued employee benefits resulted from the transfer

Note 5: The net impact on the general government sector (GGS) of a transfer between wholly-owned government entities is nil because the transfer is within the GGS.