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**Accounting Policy:
Contributions by owners made to wholly-owned
Public Sector Entities**

OFFICE OF FINANCIAL MANAGEMENT

Policy & Guidelines Paper

Preface

This Policy provides guidance to achieve a consistent approach to accounting for “contributions by owners” (i.e. equity adjustments) for all NSW Public Sector entities by:

- designating certain transfers as “contributions by owners”; and
- outlining the accounting / financial reporting, annual reporting and budgeting requirements.

This policy is issued as a Treasurer's Direction under sections 9 and 45E of the *Public Finance and Audit Act 1983* and is applicable to all NSW Public Sector entities (including Statutory State Owned Corporations) for financial years beginning on or after 1 July 2008.

This policy is consistent with Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* and Australian Accounting Standards. It supersedes the previous policy of the same name.

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for Secretary
NSW Treasury
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Executive summary

The purpose of this policy is to achieve a consistent approach to accounting for contributions by owners across the NSW Public Sector by:

- designating certain transfers as “contributions by owners” and
- outlining the accounting / financial reporting, annual reporting and budgeting requirements.

This policy applies AASB 1004 *Contributions* and Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* to the NSW Public Sector. Interpretation 1038 provides that, in the absence of equity instruments or formal agreements, the classification of transfers of assets and liabilities as contributions by owners is a policy or designation decision for Government.

This policy formally designates, as a policy decision of the Government, the following types of transfers, other than transactions at fair value consideration, as contributions by owners:

- transfers effected by Public Sector Employment and Management Orders
- corporatisations
- establishment of new statutory bodies
- transfers of programs / functions between entities
- transfers of assets / liabilities due to reassessment of use by the Government
- ‘equity appropriations’
- other transfers to adjust an entity’s capital structure and
- other transfers with a Government controlled parent entity.

The policy notes that AASB 1004 *Contributions* now requires that transfers to or from government controlled not-for-profit entities or for-profit government departments arising as a result of a “restructure of administrative arrangements” (that transfers a ‘business’) *must* be recognised as contributions by owners. Designation is not required.

If an entity is of the view that other contributions are in the nature of a contribution by owners, or an entity is unclear whether a transfer falls into one of the pre-designated categories above, entities must approach NSW Treasury for designation on a case by case basis, **before the date of transfer**.

This policy generally requires contributions by owners to be measured at fair value, except in certain limited circumstances. This policy also sets out the accounting treatment for adjustments to asset and liability values on transfer. Finally, this policy examines the financial and annual reporting requirements for transferor and transferee entities.

The main change to this policy compared to previous version (TPP 08-3) is to update and simplify the policy for the:

- withdrawal of AAS 29 *Financial Reporting by Government Departments*
- relocation of these requirements to AASB 1004 and
- the consequential amendments to Interpretation 1038.

However, in practice, NSW public sector agencies will be substantially unaffected by these changes (except for some minor changes to disclosure requirements).

1. Introduction

1.1 Purpose of this policy

The purpose of this policy is to achieve a consistent approach to accounting for contributions by owners across the NSW Public Sector by:

- designating certain transfers as “contributions by owners” and
- outlining the accounting / financial reporting, annual reporting and budgeting requirements.

1.2 Application and operative date

This policy is issued as a Treasurer’s Direction under sections 9 and 45E of the *Public Finance and Audit Act 1983*. The policy is also mandated for Statutory State Owned Corporations through the Statement of Corporate Intent of those entities.

This policy applies to financial years beginning on or after 1 July 2008. This policy is consistent with AASB 1004 *Contributions* and Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* issued by the Australian Accounting Standards Board.

1.3 Withdrawal of Treasury Policy Paper TPP 08-3

This policy supersedes Treasury Policy Paper TPP 08-3 *Contributions by Owners made to Wholly-Owned Public Sector entities*. The main change is to update and simplify the policy for the:

- withdrawal of AAS 29 *Financial Reporting by Government Departments*
- relocation of these requirements to AASB 1004 *Contributions* and
- consequential amendments to Interpretation 1038.

Following the withdrawal of AAS 29, AASB 1004 now requires ‘restructures of administrative arrangements’ (that transfers a ‘business’) to be treated as a ‘contribution by owners’, while previously Interpretation 1038 applied (refer section 3 and section 5). In practice, however, there is no change for NSW public sector agencies, because these types of transfers were previously designated as contributions by owners under Interpretation 1038.

There have also been some minor amendments to the disclosure requirements, consistent with the revised AASB 1004 requirements (refer section 8 of the policy).

2. Background

2.1 Interpretation 1038 Contributions by owners made to wholly-owned public sector entities

Interpretation 1038 applies to transfers to wholly-owned public sector entities of assets / liabilities, other than:

- transfers at fair value consideration for the provision of assets/services (which are addressed in AASB 118 *Revenue*) and
- transfers to or from government controlled not-for-profit entities or for-profit government departments arising as a result of a 'restructure of administrative arrangements' (that transfers a 'business') that are subject to AASB 1004 (refer Section 5 of the policy).

Business combinations involving entities or businesses under common control are excluded from the scope of AASB 3 *Business Combinations*. As a result, this Policy is based on AASB 1004 and Interpretation 1038.

Interpretation 1038 states that a transfer to a wholly-owned public sector entity must be recognised by the transferee as a contribution by owners when and only when it satisfies the definition of "contribution by owners" in AASB 1004 *Contributions*. A "contribution by owners" is defined as:

"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." (AASB 1004, Appendix A)

Interpretation 1038 sets out criteria that must be applied in determining whether a transfer satisfies the definition.

In the public sector, often the transferee does not issue equity instruments or is not a party to a formal agreement establishing a financial interest in the net assets. In that case, formal designation by the transferor or parent of the transferor that the transfer of assets / liabilities is to be added to the transferee's capital is necessary to identify contributions by owners (Interpretation 1038, para 8(c)). In these circumstances designation is the determining factor for classification as contribution by owners. Such designation reflects a policy decision by the Government (as Interpretation 1038 paras 25-30 discusses).

In reaching this conclusion, Interpretation 1038 clarifies that a transfer of assets and liabilities to a public sector entity from another entity controlled directly or indirectly by the same government is in substance a transfer from that government.

Interpretation 1038 paragraph 11 also requires consistent classification of contributions by owners. As a result, where a transferee classifies a transfer as a 'contribution by owners', the transferor must recognise a 'distribution to owners' (unless the transfer represents the acquisition of an ownership interest).

3. Designation of certain transfers as contributions by owners

In the NSW public sector, the definition of “contributions by owners” is taken to be satisfied when:

- Government has made a deliberate policy decision to either increase or decrease the financial resources of a public sector entity and
- the transaction is undertaken at other than fair value consideration and
- the transfer of assets / liabilities are formally designated in terms of Interpretation 1038 as contributions by owners, in the following circumstances:
 - transfers effected by Public Sector Employment and Management Orders (section 3.1)
 - corporatisations (section 3.2)
 - establishment of new statutory bodies (section 3.3)
 - transfers of programs/ functions between entities (section 3.4)
 - transfers of assets / liabilities associated with parts of programs/ functions due to reassessment of use by the Government (section 3.5)
 - ‘equity appropriations’ (section 3.6)
 - other transfers to adjust an entity’s capital structure (section 3.7) and
 - other transfers with a Government controlled parent entity (section 3.8).

If an entity is of the view that other contributions (not pre-designated above) are in the nature of a contribution by owners, or an entity is unclear whether a transfer falls into one of the pre-designated categories above, entities must approach NSW Treasury for designation on a case by case basis, **before the date of transfer**.

Designation is the responsibility of the transferor (i.e. the Government) and *not* the transferee (Interpretation 1038, 8(c) and para 31). This is because the distinction between the different components of equity is at the discretion of the owners. These transfers are briefly examined below.

This policy notes that AASB 1004 *Contributions* now requires that transfers to or from government controlled not-for-profit entities or for-profit government departments arising as a result of a “restructure of administrative arrangements” (that transfers a ‘business’) *must* be recognised as contributions by owners. Designation is not required; i.e. and these types of transfers are therefore excluded from the above designations.

3.1 Transfers effected by Public Sector Employment and Management Orders

This refers to restructures of entities (usually government departments), that are effected by way of a Public Sector Employment and Management Order (published in the Government Gazette). These orders are used to transfer functions between entities, establish or abolish entities or remove or add branches to entities.

3.2 Corporatisations

Corporatisations are authorised by an Act of Parliament. They may involve the transfer of an entire business undertaking to a new statutory State Owned Corporation (SOC) or some segments of the transferor entity’s operations may remain while other segments are transferred to one or more new SOC’s.

3.3 Establishment of new statutory bodies

The establishment of a new statutory body is usually authorised by an act of Parliament and generally arises from a restructuring / reallocation of functions between statutory bodies or departments.

3.4 Transfers of programs/ functions between entities

This refers to transfers of individual programs / functions between public sector entities mandated by the Government that are not included under any of the preceding categories.

3.5 Transfers of assets / liabilities associated with parts of programs/ functions due to reassessment of use by the Government

The Government may mandate the transfer of assets / liabilities between public sector entities due to re-assessment of the use of those assets / liabilities by the Government. Such transfers include transfers of parts of programs or functions, including individual assets or liabilities. This excludes the transfer of cash assets only, which are discussed in sections 3.6 to 3.7 below.

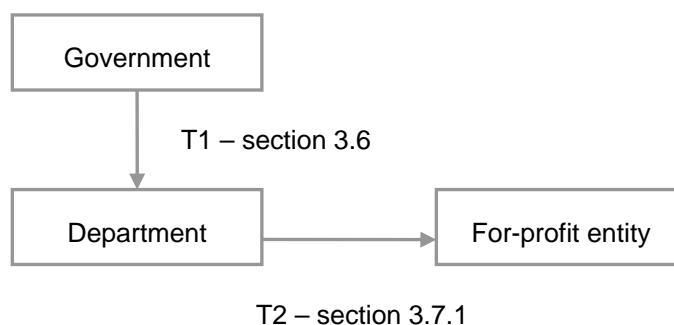
3.6 Equity appropriations

'Equity appropriations' that fund payments to adjust a for-profit entity's capital structure (refer section 3.7.1 below) will be identified in the Appropriation Act and /or Budget Papers or other legislation. This will occur where equity injections (i.e. contributions by owners) are being made through a department (or budget dependent agency) to a for-profit entity to adjust its capital structure.

In these circumstances:

- the department recognises an equity injection on receipt of the appropriation and an equity withdrawal on payment to the for-profit entity
- the for-profit entity recognises an equity injection on receipt of funds from the department.

The treatment of this type of transfer, from the viewpoint of the 'for-profit entity', is further discussed in section 3.7.1 below. The interrelationship between section 3.6 and section 3.7.1 is illustrated diagrammatically below:



Transfer 1 (T1) is the equity appropriation to the department, which is designated as a contribution by owners by this section.

Transfer 2 (T2) is the transfer to the for-profit entity, funded by the equity appropriation, to adjust the entity's capital structure, which is designated as a contribution by owners by section 3.7.1 below.

3.7 Other transfers to adjust an entity's capital structure

In certain instances, the Government may decide to adjust an entity's capital structure. A decision to adjust an entity's capital structure would most commonly occur for Public Trading Enterprises (PTEs). The treatment varies depending on whether or not the transfer is cash only.

3.7.1 Cash equity injections to for-profit entities

For consistency with Government Finance Statistics (GFS), an equity injection (i.e. contribution by owners) of cash is limited to payments to 'for-profit' entities where the intention is to adjust the capital structure of the entity; i.e. increase the entity's net assets. Definition of a 'for-profit entity' is discussed in Treasury Policy Paper *Distinguishing For-Profit from Not-for-profit Entities* (TPP 05-4).

Such cash equity injections to for-profit entities are distinguished in GFS from payments to cover losses for public policy purposes (which are treated as grants). This includes, for example, subsidies that are usually regular payments designed to influence levels of production, or prices at which outputs are sold (e.g. community service or social program payments).

There are two possible ways in which a cash equity injection can be made to a for-profit entity:

1. Cash equity injections to for-profit entities will usually be funded through an 'equity appropriation' to a department (refer section 3.6 above). Both the 'equity appropriation' to the department and the payment to the for-profit entity funded by the 'equity appropriation' are designated as a contribution by owners.
2. In rare circumstances, where the appropriation was not designated as an 'equity appropriation', only the final cash payment to the for-profit entity (Transfer 2, in the diagram in section 3.6 above) is treated as an equity injection (by the for-profit entity) and equity withdrawal (by the transferor entity). (Transfer 1 will be treated as an expense / revenue).

In the absence of an 'equity appropriation', the equity nature of this transfer to the for-profit entity will be evidenced, before the date of transfer, either in the Budget Papers or in writing to each affected entity.

3.7.2 Other equity injections – for-profit or not-for profit entities

In other circumstances, contribution by owners, other than cash equity injections (refer 3.7.1) may be made to adjust an entity's capital structure. For example, the Government may assume liabilities via the Crown Finance Entity. This may involve for-profit or not-for-profit entities.

3.8 Other transfers with a Government controlled parent entity

This refers to transfers that take place with a Government controlled parent entity, where the transferee is wholly owned by their controlling government. A Government controlled parent entity may decide to transfer assets between its subsidiaries / controlled entities other than at fair value consideration. These types of transfers typically involve controlled entities of statutory bodies and SOCs and represent a policy decision by a parent entity to reallocate equity within its ownership group.

4. Transfers not designated as contributions by owners

Transfers that are **not** required by AASB 1004 to be accounted for as contributions by owners and that are not designated as contributions by owners must be recognised as revenue.

4.1 Appropriations

'Equity appropriations' that fund payments to adjust a for-profit entity's capital structure, must be separately identified (as described in section 3.6 and 3.7.1). This is necessary because, unlike most not-for-profit entities, for-profit entities have an established capital structure (i.e. subject to Treasury's *Capital Structure Policy* TPP 02-7), which may need to be adjusted.

All appropriations not designated as a contribution by owners (i.e. not designated as an 'equity appropriation') must be recognised as revenue on receipt.

4.2 Other contributions

All other contributions not required by AASB 1004 to be accounted for as contributions by owners and that are not designated by section 3 above must be recognised as revenue, unless NSW Treasury provides approval to the contrary.

Capital (cash) grants will continue to be treated as revenue, unless the payment is intended to deliberately adjust a for-profit entity's capital structure (refer section 3.7.1). For example, where a not-for-profit entity receives a cash grant, this must be treated as revenue rather than equity.

If an entity views that any other contributions are in the nature of a contribution by owners, entities must approach NSW Treasury for designation on a case by case basis **before the date of transfer**. The entity must demonstrate that the transfer reflects a Government policy decision to deliberately increase or decrease the financial resources of the entity (i.e. the entity's equity).

5. Restructures of administrative arrangements under AASB 1004

From 2008/09, AASB 1004 requires that a 'restructure of administrative arrangements' (that transfers a 'business') with government controlled not-for-profit entities or for-profit government departments¹ must be recognised as a 'contribution by owners'. Previously, in NSW, such restructures were designated as contributions by owners under Interpretation 1038. Such restructures are now excluded from the scope of Interpretation 1038.

A 'restructure of administrative arrangements' is defined in AASB 1004 as (Appendix A):

"The reallocation or reorganisation of assets, liabilities, activities and responsibilities amongst the entities 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.

The scope of the requirements relating to restructures of administrative arrangements is limited to the transfer of a business (as defined in AASB 3 *Business Combinations*). The requirements do not apply to, for example, a transfer of an individual asset or a group of assets that is not a business".

A 'business' is defined in AASB 3 as "an integrated set of activities and assets conducted and managed for the purpose of providing: (a) a return to investors; or (b) lower costs or other economic benefits directly and proportionately to policyholders or participants" (AASB 3, Appendix A).

A transfer involving government controlled not-for-profit entities or for-profit government departments may still be accounted for as a contributions by owners, even where the definition for a 'restructure of administrative arrangements' is not satisfied. This occurs where the transfer is designated as a 'contribution by owners' under section 3 of the policy. Transfers of individual assets or groups of assets that are not a 'business' are treated as a 'contribution by owners', where they are designated.

6. Accounting by transferors and transferees for contributions by owners

6.1 Measurement principle

This policy requires that equity transfers between public sector entities be treated consistently by the transferor and transferee entities, by generally requiring equity transfers to be valued at fair value to the transferee.

The rationale for the fair value accounting approach is:

- The Government (as the shareholder or owner) has made a decision to withdraw equity from one entity and to inject equity into another entity. The transfer at fair value ensures that the transferor entity is held accountable and the transfer is made transparent. The transfer is in substance a transfer to / from the Government and should be treated consistently by all parties to the transfer.

¹ However, 'for-profit government departments' are extremely rare in the NSW public sector.

- The Government needs to know the fair value of the assets and liabilities transferred to ensure an appropriate capital structure is maintained and to assess the performance of entities.

Exceptions to the fair value measurement principle occur where:

- accounting standards permit or require a treatment, other than fair value measurement, including where the transferor is prohibited from adopting fair value measurement
- in substance there has been no transfer of assets or liabilities.

The accounting treatment for the adjustment to asset and liability values is outlined separately for:

- transfers other than 'restructures of administrative arrangements' (that transfers a 'business'), that are not subject to AASB 1004 (section 6.2)
- 'restructures of administrative arrangements' (that transfers a 'business') that are subject to AASB 1004 (section 6.3)
- transfers of intangibles (section 6.4)
- restructures where an entity becomes subsidiary (section 6.5).

6.2 Transfers other than 'restructures of administrative arrangements'

This section of the policy addresses transfers other than 'restructures of administrative arrangements' that are not subject to AASB 1004. This includes:

- transfers involving for-profit statutory bodies / PTEs (including transfers between not-for-profit entities and for-profit statutory bodies / PTEs) and
- transfers between government controlled not-for-profit entities that are not 'restructures of administrative arrangements' (that transfers a 'business') (per AASB 1004) but are designated as 'contributions by owners' under Interpretation 1038 (refer section 3).

As noted in section 6.1 above, the fair value approach requires the transferred assets and liabilities to be recognised by both the transferor and transferee at fair value to the transferee.

In most cases, carrying amounts of the transferor's assets and liabilities will not be materially different from the fair value to the transferee, where the existing use is the same. This is because fair value has been adopted as the basis of valuation of physical non-current assets in the NSW Public Sector (*Valuation of Physical Non-Current Assets at Fair Value* - TPP 07-1).

Where the existing use of physical assets is different between the two entities, the transferor's fair value prior to the transfer is likely to be different to the fair value of the asset recognised by the transferee. This is because under Treasury's Asset Valuation Policy (TPP 07-1), fair value must be measured based on existing use, where there is no feasible alternative use (refer section 2.3.1 of TPP 07-1).

In these circumstances the difference in value between the carrying amount previously recognised by the transferor and the fair value to be recognised by the transferee must be recognised by the transferor in its financial report immediately prior to transfer.

Any balance remaining in the asset revaluation reserve of the transferor in respect of those assets transferred must be moved to accumulated funds.

This policy clarifies that assets transferred as a result of an equity adjustment constitute a separate “class” of assets for the transferor, for the purpose of AASB 116 *Property, Plant and Equipment* paragraph 37. Valuing transferred assets as a separate class avoids the need to revalue all assets in the class where they originally belonged.

Liabilities and other assets transferred must also be valued at fair value at the date of transfer. Investments and debt should be revalued to market value at the date of transfer. Any unrealised gain or loss must be recognised by the transferor.

There may be circumstances where the fair value measurement principle does not apply (refer section 6.4 below).

6.3 Restructures of administrative arrangements

This policy allows transfers of assets arising from a ‘restructuring of administrative arrangements’ (that transfers a ‘business’) that are subject to AASB 1004, to be measured at either fair value or book value (i.e. the amount at which the asset was recognised by the transferor immediately prior to the restructuring of administrative arrangements). Fair value or book value is permitted consistent with the Basis for Conclusions to AASB 1004 (para BC 28), on the basis that the Standards do not specify the measurement basis to be adopted.

Subject to section 6.4 below, in most circumstances there should not be a material difference between the fair value and carrying amount of such assets, because, as discussed in section 6.2 above, fair value has been adopted as the basis of valuation of physical non-current assets in the NSW public sector (TPP 07-1).

Under this policy, transfers of liabilities as part of a ‘restructure of administrative arrangements’ (that transfers a ‘business’) must occur at fair value. Treatment of any unrealised gains or losses that arise from transferring liabilities at fair value must be accounted for in the same manner as discussed in section 6.2 above.

6.4 Transfers of intangibles

This policy includes the following exception to the principle of fair value measurement for intangibles under AASB 138 *Intangible Assets*. For intangibles acquired by way of an equity transfer, the transferee will not recognise the contributed asset at fair value in the following circumstances:

- Where the transferor entity has recognised an intangible asset at (amortised) cost because there is no ‘active market’ (AASB 138.75), the transferee must recognise that transferred intangible asset at the transferor’s carrying amount.
- Where the transferor entity does not recognise an internally generated intangible under AASB 138.63-64 (i.e. internally generated brands, mastheads, publishing titles, customer lists and items similar in substance), the transferee must not recognise that asset.

The above treatment is permissible given that AASB 3 *Business Combinations* does not apply to common control transactions.

6.5 Restructures where an entity becomes a subsidiary

Interpretation 1038 applies to transfers of assets or liabilities between wholly-owned public sector entities, other than at fair value consideration. It does not specifically address the situation where the *only* change is that a government controlled entity becomes a subsidiary of another government controlled entity (e.g. interposing a parent entity). As above, this type of restructure falls outside of the scope of AASB 3 because it involves entities under common control.

In these circumstances, the fair value measurement principle may not be appropriate or necessary, as in substance there has been no change in the beneficial ownership or relative ownership interest of the entity or group. This policy permits (but does not require) agencies to measure:

- In the parent entity's separate financial statements, the parent entity's investment in the subsidiary at cost as permitted by AASB 127 *Consolidated and Separate Financial Statements*. In determining cost, this policy permits either using the existing carrying amount of the net assets of the original parent at the date of the restructure² or using the fair value of the consideration given,
- In the consolidated financial statements, the assets and liabilities based on their previous carrying amounts in the consolidated financial statements of the original group; i.e. without any adjustments to fair value, and without recognising 'new' goodwill or any previously unrecognised assets or liabilities (that would otherwise be done under the purchase method).

7. Recognition of adjustment to equity in financial reports

Entities that do not have "capital" (and therefore no capital line item in the equity section of their balance sheet) must recognise any contributions by / distributions to owners as an adjustment to Accumulated Funds.

8. Financial and annual reporting requirements

This section of the policy describes the financial and annual reporting requirements for transferor and transferee entities. A distinction is made between:

- creation of new bodies and transfers of programs / functions (8.1); and
- other equity transfers (8.2).

² But, from 2009/10, in accordance with AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, this policy will require that where cost is adopted, and where a new parent is formed by a share exchange, cost *must* be measured based on the carrying amount of the subsidiary's net assets (i.e. the fair value of the consideration cannot be used).

8.1 Creation of new bodies and transfers of programs / functions

The requirements below apply to 'restructuring of administrative arrangements' (that transfers a 'business') that are subject to AASB 1004 (refer section 5), as well as the following types of equity transfers:

- transfers effected by Public Sector Employment and Management Orders
- incorporations
- establishment of new statutory bodies
- transfers of programs / functions and
- other transfers with a Government controlled parent entity, where the transfer involves a transfer of a function.

8.1.1 Transferee entities

(a) Financial report of transferee

The financial report of a transferee (new or existing) entity must recognise:

- the continuing activities for the financial year and the
- components transferred from transferor entities to the transferee entity for the period from the date of the restructure to the end of the financial year.

The transferee entity does not recognise expenses and revenues of those activities prior to the transfer because such expenses and revenues do not arise as a result of activities conducted by the transferee entity, but represent the revenues and expenses of another reporting entity.

The notes to the financial report of transferee entities must also disclose the following information for accountability and comparability for each transferred function or activity (consistent with AASB 1004, para 57):

- An income statement for each transferred activity for the whole period, showing separately those expenses and revenues recognised by the transferor entity up to the date of transfer.
- Comparative figures for the previous financial year for the transferred function or activity.
- Where a new statutory body has been established, or where there has been a incorporation, to ensure full disclosure, the transferee must aggregate its financial report with the transferor entity's and produce a notional consolidated financial report (i.e. primary financial statements without the accompanying notes) for the 12 month period. This is designed to facilitate a comparison of the financial position and operating results with the previous year.
- The Statement of Accounting Policies of the transferee entity must briefly articulate the policy for recognising the restructure, including for each material transfer, the assets and liabilities transferred by class and the counterparty transferor entity shall be identified. For transfers that are individually immaterial, the assets and liabilities transferred must be disclosed on an aggregate basis. Also, where applicable, adjustments to the value of assets and liabilities as a result of the transfer must be disclosed.

(b) Annual reporting by transferee

The annual report for the year ended is to be produced in accordance with the *Annual Reports (Departments) Act 1985* or the *Annual Reports (Statutory Bodies) Act 1984*, as appropriate. The Report of Operations must comment on the impact of the restructure on its performance. It may also be appropriate to report details of performance for the year distinguishing between the pre and post amalgamation periods.

8.1.2 Transferor entities**(a) Financial report of transferor**

Except as discussed below, the financial report of a transferor entity must comprise the total of:

- the continuing operations for the financial year and the
- components transferred from the transferor entity to the transferee entity for the period from the beginning of the financial year to the date of the restructure.

Where the transferor entity is abolished, it may not be required to prepare a final financial report, depending on whether or not it is a Department. This is discussed in paras (i) and (ii) below.

(i) Departments abolished

Transferor entities abolished by a restructure that were previously departments listed in Schedule 3 to the *Public Finance and Audit Act 1983* are not required to prepare a financial report. The transferor entity, however, is required to provide financial information for inclusion in the notes to the transferee entity's financial report (refer 8.1.1 above).

(ii) Statutory bodies abolished

If an abolished transferor entity was a statutory body listed in Schedule 2 to the *Public Finance and Audit Act 1983*, the body is required to prepare a financial report from the beginning of the financial year to the date of the restructure. This is required by section 43A of the Act (except where the Treasurer determines otherwise).

(iii) Where a financial report is required

Where a financial report is required (i.e. where the transferor is a continuing entity or the transferor entity is abolished but it is a statutory body, per para (ii) above), the notes to the financial report of transferor entities are to disclose the following information to ensure adequate accountability and comparability:

- The Statement of Accounting Policies of the transferor, must briefly articulate the policy for recognising the restructure, including for each material transfer, the assets and liabilities transferred by class and the counterparty transferee entity shall be identified. For transfers that are individually immaterial, the assets and liabilities transferred must be disclosed on an aggregate basis. Where applicable, adjustments to the value of assets and liabilities as a result of the transfer must be disclosed.

- *AASB 5 Non-current Assets Held for Sale and Discontinued Operations* requires the following disclosures in respect of “discontinued operations” (para 33):
 - A single amount on the face of the income statement comprising the total of: the post tax profit or loss of discontinued operations; and post tax gain or loss on measurement to fair value less costs to sell or dispose. [Selling or disposal costs will usually be \$nil for NSW Government restructures].
 - Additional analysis of the single amount and the net cash flows attributable to the discontinued operations, either in the notes or on the face of the income statement.

AASB 5 para 32 states that a “‘discontinued operation’ includes a ‘component of an entity’ that ... has been disposed of...and represents a separate major line of business or...is part of a single co-ordinated plan to dispose”. A ‘component of an entity’ (AASB 5 para 31) comprises “operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity”.

AASB 5 para Aus 2.1 excludes ‘restructuring of administrative arrangements’ (that transfers a ‘business’) (per AASB 1004) from the AASB 5 requirements. Even though AASB 5 para 31 ties the “component of an entity” concept to “cash generating units”, it appears that the Australian Accounting Standards Board intended AASB 5 to apply to all discontinued operations other than ‘restructures of administrative arrangements’.

NSW Public Sector entities must follow the AASB 5 requirements in respect of discontinued operations unless the restructure meets the definition of a ‘restructure of administrative arrangement’, under AASB 1004.

(b) Annual reporting by transferor

Except as discussed below, the annual reports of all transferor entities must cover the functions and activities controlled during the previous 12 months, in accordance with the *Annual Reports (Departments) Act 1985* or the *Annual Reports (Statutory Bodies) Act 1984*, as appropriate. The Report of Operations should comment on the impact of the restructure. This should include commenting separately on the discontinued operations.

Statutory bodies removed from Schedule 2 to the *Public Finance and Audit Act 1983* are required to prepare a final annual report. Depending on the nature of the restructure (e.g. corporatisation) it may be acceptable to produce only one annual report for the new transferee entity, covering the full 12 months. The annual report must include the transferor’s final section 43A financial report (unless exempted).

Departments removed from Schedule 3 to the *Public Finance and Audit Act 1983* are not required to prepare an annual report. Instead, annual reporting information relating to the pre–restructure period should be incorporated in the transferee’s annual report.

8.2 Other equity transfers

For any other equity transfer (i.e. other than those addressed in section 8.1), the transferor and transferee entities should, as a minimum:

- briefly articulate in their Statements of Accounting Policies, the policy for recognising the equity transfer, including for each material transfer, the assets and liabilities transferred by class and the counterparty transferor / transferee entity shall be identified. For transfers that are individually immaterial, the assets and liabilities transferred must be disclosed on an aggregate basis. Where applicable, adjustments to the value of assets and liabilities as a result of the transfer must be disclosed.
- where appropriate, comment on the impact of the transfer in the Report of Operations in the annual report.

9. Budget reporting

Where responsibility for a service for which an appropriation is made is transferred after the passing of an Appropriation Act, section 24 of the *Public Finance and Audit Act 1983* requires the transfer to apply from the beginning of the financial year. Since the appropriation is transferred at 1 July, the transfer must be recorded as occurring from 1 July for Budget reporting purposes. Where one of the parties to the transfer is a budget dependent entity, for Treasury Online Entry System (TOES) purposes the transfer should be reported as occurring at 1 July. Treasury will adjust the Budget Appropriations data accordingly.