

# TREASURER'S DIRECTIONS

## ACCOUNTING – EQUITY

### Section A4.2 : Owner Actions

#### STATEMENT OF INTENT

*The Government is the owner of Agencies on behalf of the Territory and may make contributions to Agencies and receive distributions from Agencies. This Section provides the requirements for dealing with the Government's ownership interest.*

#### MAIN FEATURES

Section 38 of the *Financial Management Act* requires every Accountable Officer and every employee of an Agency to comply with the Treasurer's Directions.

##### **Owner Actions**

- Owner actions are contributions by owners and distributions to owners affecting the Government's ownership interest in an Agency.
- The Treasurer's approval is required for owner actions.

##### **Contributions by Government**

- Contributions by Government are non-reciprocal transfers made to an Agency by the Government (acting as the owner).

##### **Distributions to Government**

- Distributions to Government are non-reciprocal transfers made by an Agency to the Government (acting as the owner).

##### **Administrative Rearrangements**

- Transfer of Agency functions that increase the Government's ownership interest in an Agency are to be recognised by the Agency as contributions by Government.
- Transfer of Agency functions that reduce the Government's ownership interest in an Agency are to be recognised by the Agency as distributions to Government.

For authoritative instruction and guidance, reference should be made to related Treasurer's Directions and associated commentary, relevant Australian accounting standards and other authoritative interpretations.

### CONTENTS

What are Owner Actions ?	A4.2.1
Contributions by Government	A4.2.3
Distributions to Government	A4.2.8
Administrative Rearrangements	A4.2.13
<u>Appendix A</u> Accounting for Owner Actions – Examples	
<u>Appendix B</u> Accounting for Administrative Rearrangements – Example	

### AUTHORITIES

Section 36 *Financial Management Act*

### REFERENCES

AAS 29	Financial Reporting by Government Departments
AAS 118	Revenue
UIG 1038	Contributions by Owners Made to Wholly Owned Public Sector Entities
	Framework for the Preparation and Presentation of Financial Statements
	Agency Capital Construction Principles
<i>Related Treasurer's Directions:</i>	
F2.2	Framework – <i>Working for Outcomes</i> : Central Holding Authority
A2.1	Accounting – Assets : Overview
A2.11	Accounting – Assets : Construction (Work in Progress)
A3.1	Accounting – Liabilities : Overview
A4.1	Accounting – Equity : Overview
A5.1	Accounting – Income : Overview
A6.1	Accounting – Expenses : Overview

WHAT ARE OWNER ACTIONS?

A4.2.1

Owner actions are contributions by owners and distributions to owners affecting the Government's ownership interest in an Agency.

- (i) The Government is the owner of Agencies on behalf of the Territory. As owner, the Government establishes and invests resources in Agencies to ensure they have the capacity to deliver outputs. The Government's ownership interest is represented by equity. Treasurer's Directions Section A4.1 provides further instruction and guidance in relation to equity.
- (ii) As owner, the Government can sell, transfer or redeem its financial interest in the net assets of an Agency at any time. This may involve adjustments to the nature and mix of assets and liabilities in an Agency. For example, an Agency may require new capital equipment to produce outputs, but not have enough funds available from its own resources. The Government can provide the necessary funds (for example, cash) to the Agency by way of a contribution by Government. Such contributions increase the Government's investment in the Agency. Conversely, distributions to Government decrease the Government's investment in an Agency. For example, the transfer of an asset to the Government for no consideration is a distribution to Government.
- (iii) The Government records its investment in Agencies in the Central Holding Authority. Changes in the level of equity invested in individual Agencies are reflected through the Central Holding Authority. Treasurer's Directions Section F2.2 provides further instruction and guidance in relation to the Central Holding Authority.

A4.2.2

The Treasurer's approval is required under the *Financial Management Act* for owner actions.

- (i) Owner actions, whether contributions by Government or distributions to Government, affect the Government's investment in an Agency and require the approval of the Treasurer (or delegate) under section 36 of the *Financial Management Act*. Approval from the Treasurer is not required for changes in equity that do not relate to owner actions (for example, transfers to or from reserves, or equity adjustments resulting from prior year error corrections).
- (ii) Approval from the Treasurer should be sought in writing and be directed to Treasury. Requests for approval should include:
  - details of the proposed transaction, including the value of the transaction;
  - the reasons why the transaction is being proposed; and
  - other information relevant to the request.

CONTRIBUTIONS BY GOVERNMENT

**A4.2.3** Contributions by Government are non-reciprocal transfers made to an Agency by the Government, where the Government is acting in its capacity as owner of the Agency.

- (i) When an Agency receives a non-reciprocal transfer from the Government it receives assets or has liabilities extinguished without directly giving approximately equal value in exchange. Transfers by the Government to an Agency that are reciprocal, that is, there is an exchange of approximately equal value, are not contributions by Government (for example, payments for the delivery of outputs).
- (ii) The equity nature of contributions by Government can be evidenced by any of the following:
- formal designation of the transfer by the Government, as a contribution by Government (refer Treasurer's Direction A4.2.4);
  - formal agreement, in relation to the transfer, establishing a financial interest in the net assets of the Agency that can be sold, transferred or redeemed; or
  - issuance of equity instruments in relation to the transfer.
- (iii) Agencies are wholly owned by the Government, and generally are not party to agreements setting out ownership interests, nor do they issue equity instruments (such as shares). Accordingly, formal designation of a transfer as a contribution by the Government is required for an Agency to classify the transfer as a contribution by Government.

**A4.2.4** The following types of non-reciprocal transfers from the Government are formally designated as contributions by Government:

- funding (including Capital Appropriations) for new assets or additions to assets;
- transfer of assets to an Agency;
- assumption of Agency liabilities by the Government;
- adjustments to the capital structure of an Agency, including those under section 36 of the *Financial Management Act*;
- establishment of new entities including statutory authorities or corporations; and
- transfers of individual functions or parts thereof, whether or not as a result of changes to the *Administrative Arrangements Order*, to an Agency.

- (i) The Government may provide funding to Agencies for new assets or additions to assets. This funding is also known as an equity injection and may be in the form of a Capital Appropriation. Equity injections represent an increase in the Government's investment in an Agency. Treasurer's Directions Section A2.11 and the Agency Capital Construction Principles provide further instruction and guidance in relation to capital construction and capital works.

## Section A4.2 : Equity – Owner Actions

---

- (ii) In situations where the Government provides an Agency with an asset for no consideration or for less than fair value, the Government will also increase its investment in the Agency.
- (iii) The assumption of a liability is another way in which the Government may make a contribution, as owner, to the Agency. The Government's assumption of a liability held by an Agency increases the Government's investment in that Agency.
- (iv) The Government may adjust the capital structure of an Agency, for example asset and liability holdings. The decision to adjust an Agency's capital structure may include the transfer of assets or the assumption of liabilities and is recognised as an equity adjustment by the Agency.
- (v) The establishment of a new statutory authority or corporation may arise from a rearrangement of Government functions and is generally authorised by an Act of Parliament.
- (vi) Agencies represent the administrative arrangements of the Government. As circumstances change, these administrative arrangements may be altered. Administrative rearrangements are discussed fully later in this Section.

### A4.2.5

**Contributions by Government not formally designated in Direction A4.2.4 require the Treasurer's approval prior to the transfer occurring.**

- (i) Where a transfer is considered to be a contribution by Government and is not covered by the formal designations in Direction A4.2.4, an Agency is required to obtain the Treasurer's approval to formally designate the transfer to be a contribution by Government. The Treasurer's approval is required prior to the transfer occurring.
- (ii) Approval from the Treasurer should be sought in writing and be directed to Treasury. Requests for approval should include:
  - details of the proposed transfer, including the value being transferred;
  - the reasons why the transfer is considered to be a contribution by Government;
  - the proposed date the transfer is to take place; and
  - other information relevant to the request.

A4.2.6

**Contributions by Government are to be recognised and recorded as a direct adjustment to equity when the associated increase in assets or decrease in liabilities qualifies for recognition.**

- (i) The timing of the recognition of contributions by Government is dependent upon the time at which the Agency gains control of the contributed assets or passes control of the liabilities that are assumed by the Government. Generally control is obtained upon the earlier of:
- the increase in Agency assets;
  - the decrease in Agency liabilities; or
  - the date of the contribution.
- (ii) Contributions by Government are recognised and recorded at fair value. Treasurer's Directions Section A2.1 provides further instruction and guidance in relation to the recognition of assets.
- (iii) Refer to Appendix A for an example of the accounting treatment of contributions by Government.

A4.2.7

**Contributions (other than contributions by Government) are to be recognised and recorded as income when the associated increase in assets or decrease in liabilities qualifies for recognition.**

- (i) Other non-reciprocal transfers from the Government that are not formally designated as contributions by Government are recognised as income when they satisfy the appropriate recognition criteria.
- (ii) Treasurer's Directions Sections A2.1, A3.1 and A5.1 provide further instruction and guidance in relation to assets, liabilities and income respectively.

## DISTRIBUTIONS TO GOVERNMENT

A4.2.8

**Distributions to Government are non-reciprocal transfers made to the Government by an Agency, where the Government is acting in its capacity as owner of the Agency.**

- (i) Distributions to the Government may occur where an Agency has surplus funds. Surplus funds may be in the form of or result from:
- one or more operating surpluses;
  - a reduced need for working capital; or
  - an administrative rearrangement of the functions performed by the Agency.

## Section A4.2 : Equity – Owner Actions

---

- (ii) The equity nature of distributions to Government can be evidenced by any of the following:
- formal designation of the transfer by the Government, as a distribution to Government (refer Treasurer's Direction A4.2.9);
  - amendment of a formal agreement, in relation to the transfer, to reduce the Government's financial interest in the net assets of the Agency; or
  - cancellation of equity instruments in relation to the transfer.
- (iii) Agencies are wholly owned by the Government, and generally are not party to agreements setting out ownership interests, nor do they issue equity instruments (such as shares). Accordingly, formal designation of a transfer as a distribution to the Government is required for an Agency to classify the transfer as a distribution to Government.

### A4.2.9

The following types of non-reciprocal transfers to the Government are formally designated as distributions to Government:

- cash payments to the Government in the nature of a distribution of accumulated funds, including dividend payments;
- transfer of assets to the Government;
- assumption of Government liabilities by an Agency;
- adjustments to the capital structure of an Agency, including those under section 36 of the *Financial Management Act*; and
- transfers of individual functions or parts thereof, whether or not as a result of changes to the *Administrative Arrangements Order*, from an Agency.

- (i) A distribution of accumulated funds to the Government represents a return on the Government's investment in an Agency. An example of a distribution of accumulated funds is the payment of a dividend by an Agency to the Government.
- (ii) Non-reciprocal transfers of assets for little or no consideration, assumption of Government liabilities, transfer of Agency functions, and changes to the capital structure of an Agency represent a return of equity held by the Government. A return of equity reduces the Government's investment in an Agency.
- (iii) Agencies represent the administrative arrangements of the Government. As circumstances change, these administrative arrangements may be altered. Administrative rearrangements are discussed fully later in this Section.

A4.2.10

**Distributions to Government not formally designated in Direction A4.2.9 require the Treasurer's approval prior to the transfer occurring.**

- (i) Where a transfer is considered to be a distribution to Government and is not covered by the formal designations in Direction A4.2.9, an Agency is required to obtain the Treasurer's approval to formally designate the transfer to be a distribution to Government. The Treasurer's approval is required prior to the transfer occurring.
- (ii) Approval from the Treasurer should be sought in writing and be directed to Treasury. Requests for approval should include:
- details of the proposed transfer, including the value being transferred;
  - the reasons why the transfer is considered to be a distribution to Government;
  - the proposed date the transfer is to take place; and
  - other information relevant to the request.

A4.2.11

**Distributions to Government are to be recognised and recorded as a direct adjustment to equity when the associated decrease in assets or increase in liabilities qualifies for recognition.**

- (i) The timing of the recognition of distributions is dependent upon the time at which the Agency passes control of the associated assets or assumes liabilities on behalf of the Government. Generally control is passed upon the earlier of:
- the decrease in Agency assets;
  - the increase in Agency liabilities; or
  - the date of the distribution.
- (ii) Distributions to Government are recognised and recorded at fair value. Treasurer's Directions Section A2.1 provides further instruction and guidance in relation to the recognition of assets.
- (iii) Refer to Appendix A for an example of the accounting treatment of distributions to Government.

A4.2.12

**Distributions (other than distributions to Government) are to be recognised and recorded as expenses when the associated decrease in assets or increase in liabilities qualifies for recognition.**

- (i) Other non-reciprocal transfers from an Agency to the Government that are not formally designated as distributions to owners are recognised as expenses when they satisfy the appropriate recognition criteria. For example goods and services provided free of charge to the Government by an Agency (as distinct from those goods and services provided as part of an Agency's outputs) are recognised as an expense equal to the fair value recorded by the Agency for the goods and/or services.
- (ii) Treasurer's Directions Sections A2.1, A3.1 and A6.1 provide further instruction and guidance in relation to assets, liabilities and expenses respectively.

#### ADMINISTRATIVE REARRANGEMENTS

A4.2.13

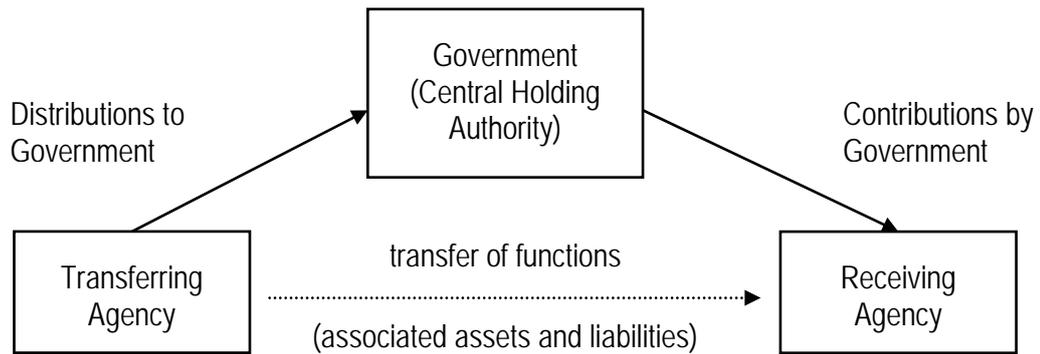
**Transfer of Agency functions or parts thereof, that increase the Government's ownership interest in an Agency are to be recognised by the Agency as contributions by Government.**

A4.2.14

**Transfer of Agency functions or parts thereof, that reduce the Government's ownership interest in an Agency are to be recognised by the Agency as distributions to Government.**

- (i) Agencies represent the administrative arrangements of the Government and as such the Government may rearrange the allocation of functions undertaken by individual Agencies. As part of an administrative rearrangement there may be a transfer of assets and liabilities between Agencies.
- (ii) Administrative rearrangements may take a number of forms including:
- the transfer of a function or parts thereof, from one Agency to another Agency;
  - the amalgamation of two or more Agencies into one Agency;
  - the termination of an individual function or Agency; and
  - the creation of a new function or Agency.
- (iii) When the Government decides to transfer a function or parts thereof from one Agency to another, the assets and liabilities transferred with that function represent a change to the Government's investment in both Agencies. The transfer of functions from one Agency to another, occurs in two stages as illustrated in Figure 1. The first stage is the distribution by the transferring Agency to the Government and the second stage is a contribution by the Government to the receiving Agency.

Figure 1 - Transfer of Functions Between Agencies



- (iv) The value of asset's and liability's transferred will be agreed between the affected Agencies and will be based on asset and liability values recorded in Agency financial statements immediately prior to the transfer. The value of the transfer as recorded by both the transferring and receiving Agencies will be the same. Treasurer's Directions Section A2.1 provides further instruction and guidance in relation to the recognition of assets as part of an administrative rearrangement.
- (v) The transferring and receiving Agencies need to assess the net effect of the transfer on the level of Government's ownership interest in the Agencies, as follows:
- where the Government's ownership interest in an Agency is reduced as a result of the transfer (equity withdrawal) the transfer represents a distribution to Government; and
  - where the Government's ownership interest in an Agency is increased as a result of the transfer (equity injection) the transfer represents a contribution by Government.
- (vi) The timing of the recognition and recording of the transfer is dependent upon the time at which control of the associated assets or liabilities passes from one Agency to the other. Generally control will pass on the date formally established by the Government for the transfer to occur.
- (vii) Refer to [Appendix B](#) for an example of the accounting treatment for administrative rearrangements.

ACCOUNTING FOR OWNER ACTIONS – EXAMPLES

Contributions by Government

The Government provides a contribution to an Agency in the form of a Capital Appropriation in the amount of \$100,000 to purchase a new asset. Capital Appropriations have been formally designated as contributions by Government in Direction 4.2.4 and the Treasurer's approval under section 36 of the *Financial Management Act* has been obtained. The journal entries to record the contribution by Government in the books of the Agency are:

DR	Cash at Bank	<i>(Increase in Assets – Balance Sheet)</i>	\$100,000
CR	Equity Injections	<i>(Increase in Equity – Balance Sheet)</i>	\$100,000

Distributions to Government

An Agency sold surplus property, plant and equipment for \$250,000. The Agency now has surplus cash of \$250,000 and a decision is made to return this cash to the Government. Asset transfers for no consideration have been formally designated as distributions to Government in Direction 4.2.9 and the Treasurer's approval under section 36 of the *Financial Management Act* has been obtained. The journal entries to record the distribution to Government in the books of the Agency are:

DR	Equity Withdrawals	<i>(Decrease in Equity – Balance Sheet)</i>	\$250,000
CR	Cash at Bank	<i>(Decrease in Assets – Balance Sheet)</i>	\$250,000

**ACCOUNTING FOR ADMINISTRATIVE REARRANGEMENTS – EXAMPLE**

The Government has decided to transfer certain functions from Agency A to Agency B. Assets (for example, land assets) in the amount of \$450,000 and liabilities (for example, accounts payable) in the amount of \$150,000 have been determined as relating to the functions being transferred. The Treasurer's approval under section 36 of the *Financial Management Act* has been obtained. The journal entries to record the effect of this administrative rearrangement in the books of each Agency are:

**Transfer from Agency A**

DR	Accounts Payable	<i>(Decrease in Liabilities – Balance Sheet)</i>	\$150,000
DR	Equity Withdrawal	<i>(Decrease in Equity – Balance Sheet)</i>	\$300,000
CR	Land	<i>(Decrease in Assets – Balance Sheet)</i>	\$450,000

**Transfer to Agency B**

DR	Land	<i>(Increase in Assets – Balance Sheet)</i>	\$450,000
CR	Equity Injection	<i>(Increase in Equity – Balance Sheet)</i>	\$300,000
CR	Accounts Payable	<i>(Increase in Liabilities – Balance Sheet)</i>	\$150,000