TREASURER'S DIRECTIONS

ACCOUNTING – INCOME

Section A5.3 : Agency Income

STATEMENT OF INTENT

Information in relation to Agency income enables users of Agency financial statements to assess an Agency's performance, identify inflows of financial resources received and the extent of cost recoveries during the reporting period. This Section explains what Agency incomes are and when they are recognised.

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.

Agency Income

- Agency income includes revenues and gains in the form of inflows of financial resources controlled by an Agency and includes all income not specified as Territory income.
- Agency income results in an increase in an Agency's net assets during the reporting period and excludes contributions by Government.

Revenue from Government

- Revenue from Government is to be recognised and recorded in the books of an Agency when the Agency obtains control of the appropriated funds.

Sales of Goods and Services

- Revenue from the sale of goods and services is to be recognised and recorded in the books of the Agency when the goods and services are provided.

Grants and Subsidies

- Non-reciprocal grants and subsidies in the nature of Agency income are to be recognised and recorded in the books of the Agency as revenue when the Agency obtains control of the grant or subsidy.
- Reciprocal grants in the nature of Agency income are to be recognised in the books of the Agency as revenue when performance under the grant has occurred.

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

AUTHORITIES

Financial Management Act

REFERENCES

AAS 29	Financial Reporting by Government Departments
AASB 118	Revenue
AASB 1004	Contributions
	Framework for the Preparation and Presentation of Financial Statements

Related Treasurer's Directions:

A2.1	Accounting – Assets : Overview
A2.2	Accounting – Assets : Property, Plant and Equipment
A2.7	Accounting – Assets : Receivables
A4.2	Accounting – Equity : Owner Actions
A5.1	Accounting – Income : Overview
A5.2	Accounting – Income : Territory Income
A6.3	Accounting – Expenses : General Expenses
A6.4	Accounting – Expenses : Grants and Subsidies
C3.1	Cash Management – Transaction Management : Receipting

WHAT IS AGENCY INCOME ?

A5.3.1 **Agency income includes revenues and gains in the form of inflows of financial resources controlled by an Agency and includes all income not specified as Territory Income.**

A5.3.2 **Agency income results in an increase in the Agency's net assets during the reporting period and excludes contributions by owner.**

(i) Agency income is inflows of economic benefits of an Agency during the reporting period in the form of increases in its assets or reductions in its liabilities that result in an increase in equity, other than those relating to contributions from Government.

(ii) An Agency is to recognise income that it controls. Agency income should be distinguished from Territory income, which is managed or collected by an Agency on behalf of the Government. Territory income is reported by the Central Holding Authority rather than in Agency financial statements. Agency income also excludes contributions by Government (acting as owner) as explained in Treasurer's Directions Section A4.2.

(iii) Examples of Agency income include:

- revenue from Government (for example, output revenue);
- other revenue from the sale of goods and services;
- grants and subsidies revenue;
- income from the disposal of non-current assets; and
- resources received free of charge.

(iv) Individual categories of Agency income are explained in greater detail in this Section, while an overview of income concepts is provided in Treasurer's Directions Section A5.1. Treasurer's Directions Section A5.2 provides instruction and guidance in relation to Territory incomes.

REVENUE FROM GOVERNMENT

A5.3.3 **Revenue from Government is to be recognised and recorded in the books of an Agency when the Agency obtains control over the appropriated funds.**

(i) Under the purchaser/provider relationship the Government, through Output Appropriation, funds Agencies to provide outputs to the community. Agencies recognise Output Appropriation as revenue from Government when the Agency gains control over the appropriated funds. Output revenue represents Agency income as it can be used by the Agency to achieve its objectives.

(ii) Control of output revenue arises when an Agency can deploy appropriated funds to provide outputs or to otherwise achieve the Agency's objectives. Generally an Agency does not gain control of the appropriated funds for its use until the appropriated funds are received (that is, receipt of cash).

(iii) In situations where an Agency has not delivered outputs in accordance with the agreed performance measures, the Government may reduce the amount appropriated to that Agency, and as a result, reduce output revenue.

(iv) An example showing how to account for output revenue is provided at Appendix A.

SALES OF GOODS AND SERVICES

A5.3.4 **Revenue from the sale of goods and services is to be recognised and recorded in the books of an Agency when the goods and services are provided.**

(i) Revenue from the sale of goods is recognised when the Agency has passed control of the goods to the purchaser (that is, when the goods are provided). In most cases, the transfer of control coincides with the transfer of the legal title or the passing of possession of the goods to the buyer.

(ii) Revenue from the delivery of services is recognised when the Agency has provided the services. In addition certain services may be subject to contractual arrangements where revenue may be recognised at various stages of contract completion. Additional information on contractual arrangements is included later in this Treasurer's Directions Section. An example showing how to account for sales revenue is provided at Appendix A.

(iii) In practice, revenue from the sale of goods and delivery of services is usually recognised when an invoice is issued. However, an invoiced amount does not become revenue until the invoicing Agency has provided the goods or services. In cases where an invoice is raised in advance of the delivery of goods or services, and amounts are material, individually or in aggregate, a liability for unearned revenue would be raised.

(iv) Revenue from the sale of goods or services is to be recognised exclusive of the amount of Goods and Services Tax (GST). Additional instruction and guidance regarding GST policy may be found in Treasury Tax Circulars.

A5.3.5 Revenue arising from a contractual arrangement to provide services is to be recognised and recorded by reference to the stage of completion of the contract when all the following conditions have been satisfied:

- the outcome of the contract to provide services can be estimated reliably;
- the Agency controls a right to be compensated for services rendered;
- it is probable that the economic benefits comprising the compensation will flow to the Agency;
- the amount of revenue can be reliably measured; and
- the stage of completion of the transaction can be reliably assessed.

(i) The provision of services is usually the subject of a contractual arrangement between the Agency and the purchaser. These contractual arrangements can be:

- specific, with an identified number of deliverables and dates for provision of the service; or
- generic, with an indeterminable number of activities over a specified period.

(ii) The stage of completion of a contractual transaction may be determined in a number of ways. Depending on the nature of the transaction, the method may be one of the following:

- surveys of work performed;
- services performed to date as a percentage of total services to be performed; or
- the proportion of costs incurred to date compared to the estimated total transaction cost (cost method).

(iii) In relation to the cost method, only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction. Progress payments and advances received from customers often do not reflect the services performed.

(iv) For practical purposes, when services are performed by an indeterminate number of activities over a specified period of time, it would be appropriate to recognise revenue on a straight-line basis over the specified period unless there is evidence that some other method of recognition better represents the stage of completion. For example, when a specific milestone or activity is far more significant than other activities, it is appropriate to recognise revenue when the significant milestone or activity has been performed.

A5.3.6

> Subject to Treasurer's Direction A5.3.5, where the outcome of a contract to provide services cannot be reliably estimated:
>
> - contract costs are to be recognised as an expense in the reporting period in which they are incurred; and
> - where it is probable that the costs will be recovered, revenue is to be recognised only to the extent of costs incurred.

(i) In the early stages of a transaction it may be the case that the overall outcome of the transaction cannot be estimated reliably and that the Agency will recover only some of the transaction costs incurred. In this situation, revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

(ii) For example, an Agency is providing specified services with a maximum contract value of $300,000. Although costs greater than $300,000 may have been incurred in delivering the required services, the Agency will only recognise revenue up to $300,000, unless it is more probable than not that additional revenue will be forthcoming as a result of contract renegotiations.

(iii) When the outcome of the contract is no longer uncertain, revenue is recognised in accordance with Treasurer's Direction A5.3.5.

A5.3.7

> Community Service Obligation revenue is to be recognised and recorded in the books of a Government Business Division when control over the funds is obtained.

(i) Community Service Obligations (CSO) arise when the Government specifically requires a Government Business Division to carry out an activity which it would not elect to do on a commercial basis or would only undertake commercially at a higher price. A Government Business Division may receive CSO revenue to compensate for having to undertake the activity.

(ii) Revenue in relation to a CSO is recognised when the Government Business Division gains control of the CSO revenue. Control normally arises on receipt of the funds, although revenue may be recognised on delivery of goods and services in some cases.

(iii) Community Service Obligations are subject to review by the Agency making the CSO payment and Treasury, and have National Competition Policy implications. Consequently, CSO's and the delivery of those obligations will be subject to appropriate accountability and control arrangements.

GRANTS AND SUBSIDIES

A5.3.8

Non-reciprocal grants and subsidies in the nature of Agency income are to be recognised and recorded in the books of an Agency when:

- **control of the grant or subsidy, or control of the right to receive the grant or subsidy, is obtained;**
- **it is probable that the economic benefits of the grant or subsidy will flow to the Agency; and**
- **the grant or subsidy can be measured reliably.**

(i) The point in time when grants and subsidies will be recognised as revenue will depend on the nature of the grant or subsidy as either non-reciprocal or reciprocal. Non-reciprocal grants and subsidies are contributions received which are non-repayable and/or the contributor receives no direct benefit in return. These funds may be for general budget support or be tied to specific expense items. This Treasurer's Directions Section deals with grants and subsidies that are in the nature of Agency income from the perspective of the recipient. Treasurer's Directions Section A6.4 provides instruction and guidance in relation to grants and subsidies from the perspective of the provider.

(ii) Non-reciprocal grants and subsidies, other than contributions by owners, are recognised as revenue when the Agency obtains control over the assets comprising the contributions. Control is normally obtained on receipt of the grant or subsidy (that is, receipt of cash).

(iii) In rare cases, control may occur upon notification that a grant or subsidy has been secured. Relevant factors in assessing whether a grant or subsidy has been secured prior to receipt of the contribution, include:

- formal written notification has been received;
- the amount of the contribution has been confirmed; and
- the date for payment of the contribution has been fixed.

(iv) An example showing how to account for non-reciprocal grants is provided at Appendix A.

A5.3.9

Reciprocal grants in the nature of Agency income are to be recognised and recorded in the books of an Agency when payment has not been received in advance and when performance under the grant has occurred.

(i) Reciprocal grants are contributions received by an Agency where the Agency is obliged to return similar value in exchange to the provider. For example, if an Agency receives a grant from the Australian Government to undertake research and to provide the results of that research directly back to the Australian Government, the grant would be considered to be reciprocal.

(ii) Reciprocal grants typically have an underlying agreement between the grant recipient and provider that specifies grant conditions and requirements. These conditions and requirements will assist in determining when grant revenue should be recognised. In particular, reciprocal or exchange transactions are often characterised by a legally enforceable requirement (that is expected to be practically enforced) to repay or return some or all of the grant where performance under the grant agreement does not occur.

(iii) Performance under a reciprocal grant will depend on individual grant terms, conditions and requirements, and may include:

- applicable grant eligibility criteria being met;
- the delivery of specified goods in accordance with grant agreement; or
- the provision of specified services in accordance with the grant agreement

(iv) Where a reciprocal grant is received in advance of an Agency's delivery of goods or services under the grant, the Agency will recognise an unearned revenue (liability) equivalent to the unearned portion of revenue. When or as performance occurs, the total amount or portion of the unearned revenue that has been earned would be recognised as revenue. In practice, it is recognised that a reliable assessment of the unperformed portion of a grant will be difficult to make and, as such, unearned revenue will only be raised where material and where these amounts can be reliably measured.

A5.3.10 **Grants or subsidies that occur between Agencies are to be consistently treated as either reciprocal or non-reciprocal by the Agency receiving the grant and the Agency providing the grant.**

(i) In situations where an Agency provides a grant or subsidy to another Agency, each Agency is responsible for ensuring that the contribution is consistently treated as either reciprocal or non-reciprocal in accordance with these Treasurer's Directions.

(ii) In addition, where a payment of a grant or subsidy is agreed between Agencies, each Agency is responsible for ensuring that the payment and receipt is consistently treated as a grant or subsidy. Treasurer's Directions Section A6.4 provides instruction and guidance in relation to grants and subsidies from the perspective of the provider it also further outlines the nature of a grant and subsidy.

(iii) Grants received by an Agency may be subject to the Goods and Services Tax (GST). As such, Agencies should have regard to instruction and guidance regarding GST and grants included in Treasury Tax Circulars.

SALE OF NON-CURRENT ASSETS

A5.3.11 **Income from the sale of non-current assets is to be recognised and recorded when the Agency has passed control of the assets to the buyer.**

(i) An Agency may sell property, plant and equipment that it uses or has used to produce goods or provide services. The sale of significant Agency assets (for example, land, buildings and infrastructure) may also occur subject to appropriate approval from the Government. Income from the sale of an Agency's non-current assets is classified as Agency income.

(ii) Income from the sale of Agency assets would normally be recognised when the seller and buyer are both committed to a contract. It is at this time that control would normally pass from the seller to the buyer. A practical recognition point would be the earlier of:

- date of sale; or
- date when both parties sign an unconditional contract for sale.

(iii) Income and expenses arising from the sale of non-current assets may be recorded in the Agency's Operating Statement on a net basis. Treasurer's Directions Section A5.1 provides further instruction and guidance in relation to the set-off of income and expenses.

(iv) Additional controls and accountability arrangements exist over the sale of property, plant and equipment. Reference should be made to Treasurer's Directions Section A2.2 for further details on the disposal of these assets.

RESOURCES RECEIVED FREE OF CHARGE

A5.3.12 **Resources received free of charge by an Agency are to be recognised and recorded in the books of an Agency when control over the goods or services is obtained.**

(i) An Agency may receive goods and services free of charge from Agencies or other entities. Resources received free of charge are non-reciprocal transfers to the Agency, that is, the Agency does not provide approximately equal value in exchange to the contributor.

(ii) This Treasurer's Direction deals with revenue associated with resources received free of charge. Treasurer's Directions Section A6.3 provides instruction and guidance in relation to expenses associated with resources received free of charge.

(iii) Resources that an Agency may receive free of charge include:

- personnel and payroll services;
- accounts processing;
- asset management;
- office accommodation;
- car parking;
- power and lighting;
- audit services; and
- donated assets.

(iv) Revenue associated with resources received free of charge is recognised when control over the goods or services received free of charge is obtained. Control is normally obtained either on receipt of the goods or services or formal notification that the goods or services have been secured or delivered. The recipient Agency recognises revenue equivalent to the fair value of the goods or services received (for example, the price charged by the providing Agency or entity) where such a value can be reliably established.

(v) It is important for an Agency to record the shift in the allocation of resources resulting from goods and services received free of charge to improve accountability and achieve more accurate costing of service delivery. However, Agencies should remain aware of the administrative costs and materiality of revenue information collected.

(vi) Resources received from another entity as the result of machinery of Government changes, or in the form of grants and subsidies are not included as resources received free of charge.

(vii) Resources received in the form of contributions by Government (acting as owner), for example, those resulting from restructuring of administrative arrangements, are recognised as a direct adjustment to equity. Treasurer's Directions Section A4.2 provides further instruction and guidance relating to contributions by Government.

INTEREST INCOME

A5.3.13	Interest is to be recognised and recorded as income in the books of an Agency when earned.

(i) Interest income includes interest revenue and gains. Where an Agency is entitled to receive interest revenue (for example, interest earned on cash balances) interest revenue is recognised as income when control over the resulting asset is obtained (for example, the earlier of the receipt of cash or the recognition of a receivable for interest earned).

(ii) Interest income excludes dividends.

OTHER AGENCY INCOME

A5.3.14 **An Agency is to recognise and record other income in the books of an Agency at the earlier of the receipt of cash or the earning of income.**

(i) There may be other categories of income that would not appropriately be classified in the categories of Agency income outlined in these Treasurer's Directions that occur because of the specific activities of an Agency.

(ii) Other Agency income may include:

- *Information Act* fees and charges;
- hire of facilities;
- minor rental arrangements (for example, pay phone revenue);
- levies receivable by a specific Agency (for example, Crimes Victims levies); and
- recoveries receivable by a specific Agency (for example, Crimes Victims Assistance recoveries).

(iii) Where such income meets the definition of Agency income, it will be recognised and recorded when it is probable that there will be an inflow of future economic benefits that can be reliably measured.

(iv) In situations where the recovery of outstanding income amounts is unlikely, income would not be raised until cash was received. For example, the recovery of Crimes Victims Assistance amounts from offenders has proven to be unsuccessful in most cases. As a result, amounts outstanding from offenders will not be recognised as a receivable (asset), but will be recognised as income when cash is received.

(v) Policy Brief – Income No. 1 provides further instruction and guidance in relation to the treatment of Crimes Victims Assistance amounts. Further instruction and guidance in relation to the recognition of income may be found in Treasurer's Directions Section A5.1.

APPENDIX A

ACCOUNTING FOR AGENCY REVENUE – EXAMPLES

Example 1 – Output Revenue

An Agency delivers outputs in relation to the provision of education services to the community. The price, quantity, specifications and performance measures have been agreed between the Government (purchaser) and the Agency (provider). The Agency receives Output Appropriation of $2,000,000 for the provision of these outputs. The following journal entry would be processed by the Agency on receipt of the Output Appropriation funding

DR	Cash at Bank	(Increase in Assets – Balance Sheet)	$2,000,000	
CR	Output Revenue	(Increase in Income – Operating Statement)		$2,000,000

Example 2 – Provision of Services

On 20 June an Agency finalises the provision of services to an external entity and raises an invoice totalling $22,000 (including $2,000 GST). The journal entry to recognise revenue and an asset (accounts receivable) for services provided is as follows:

DR	Accounts Receivable	(Increase in Assets – Balance Sheet)	$22,000	
CR	GST Due/Received	(Decrease in Assets – Balance Sheet)		$2,000
CR	Goods and Services Revenue	(Increase in Income – Operating Statement)		$20,000

When cash is subsequently received from the debtor, the journal entry would be:

DR	Cash at Bank	(Increase in Assets – Balance Sheet)	$22,000	
CR	Accounts Receivable	(Decrease in Assets – Balance Sheet)		$22,000

APPENDIX A (continued)

Example 3 – Non-reciprocal Grant

On 30 June an Agency receives funding of $90,000 directly from the Australian Government in the form of an untied grant with no restrictions on use. The contribution is classified as a non-reciprocal grant as the funding is not repayable, has no restrictions on use and does not require the Agency to deliver goods or services to the Australian Government. The following journal entry would be processed upon receipt of the grant (in this case it has been assumed that the transaction is GST- free):

DR	Cash at Bank	(Increase in Assets – Balance Sheet)	$90,000	
CR	Grants and Subsidies Revenue	(Increase in Income – Operating Statement)		$90,000