| Treasurer’s Direction (mandatory) | |
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| **Purpose** | To detail the key principles of income management, income recognition and reporting requirements for agencies to comply with Australian accounting standards on revenue. |
| **Last reviewed** | Not applicable |
| **Operative date** | Commencing from |
| **References** | * *Financial Management Act 1995* * AASB 15 Revenue from contracts with customers * AASB 1058 Income for not-for-profit entities * AASB 1004 Contributions * AASB 2016-8 Amendments to AASB 9 and 15 – Australian implementation guidance for not-for-profit entities * AASB 2018-4 Amendments to AASB 15 and 16 – Australian implementation guidance for not-for-profit public sector licensors * AASB 2018-8 Amendments to AASB 1, 16,117, 1049 and 1058 Right-of-use assets of not-for-profit entities * AASB 9 Financial Instruments * Guidance document – Income (**recommended to be read in conjunction with this Treasurer’s Direction**) * Transitional implementation: Income (**recommended to be read in conjunction with this Treasurer’s Direction**) * Guidance document – Accounting for Territory income (**recommended to be read in conjunction with this Treasurer’s Direction**) |

# Scope

1. This Treasurer’s Direction outlines key principles for income management including how to measure and account for income in accordance with Australian accounting standards.
2. Any reference to ‘agency’ also includes ‘government business division’ (GBD).

# Principles of income management

1. An agency must optimise revenue generation, where possible.
2. Where agency revenue is less than forecast, the accountable officer must manage resources and limit associated expenditure.
3. In exceptional circumstances, where additional appropriation is required, an accountable officer must refer to the Treasurer’s Direction B1.2 – The budget process, to seek approval from Cabinet.
4. Agencies must recognise all income at the GST exclusive amount in the ledger.

## Seeking approval to use additional agency revenue

1. If increases to agency revenue is expected to exceed approved budget for a financial year by $500 000 per request, it may:
   1. seek approval to utilise revenue as part of the budget process
   2. or submit a ministerial request to the Treasurer, where it seeks to utilise revenue outside the budget process.
2. If increases to agency revenue are expected to be less than $500 000 per request for the financial year when compared to approved budget, approval to utilise revenue must be provided by the accountable officer and endorsement sought from the relevant minister.
3. Pursuant to paragraph 7 and 8, an agency must submit a budget administrative variation during the budget process supported by ministerial endorsement and or Treasurer’s approval for requests sought outside the budget process.
4. Pursuant to paragraph 7, all requests must include sufficient evidence to support the request.

## Offsetting

1. Agencies must not offset income and expenses unless permitted by a Treasurer’s Direction or Australian accounting standard.
2. Offsetting is permitted for the following provided both occur within the same financial year:
   1. Payments received for a seconded staff member can be offset against agency employee expenses if the agency continues to pay for employee’s salary and related costs, only to the extent of the costs incurred.
   2. Refunds or credit notes received from suppliers can be offset against the cost of the purchased goods.
   3. Repayment of a grant and subsidy expense where adjusting a previously recognised grant and subsidy expense reflects the substance of the transaction.

# Principles for income recognition

1. Agencies may consider the following categories to determine the principles to apply when recognising income:
   1. does a transaction create a performance obligation and give rise to a liability?
   2. is it income for the acquisition or construction of an asset?
   3. is it a contribution by an owner?
   4. is it income for a licence (excludes licences which contain a lease or are a service concession arrangement)?
   5. is it income related to volunteer services?
   6. is it income relating to assets acquired for nil consideration or significantly below fair value?
   7. is it a tax or a fine?
   8. is it a pass-on arrangement?
2. Agencies must refer to the relevant Australian accounting standards, to determine the appropriate income recognition principles, for categories of income not listed in paragraph 13.

# Transaction that creates a performance obligation or contract liability

1. A performance obligation is a promise in a contract with a customer to transfer to the customer either:
   1. a good or service (or bundle of goods or services) that is distinct
   2. or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.
2. Revenue recognition must reflect consideration received or receivable, for goods or services transferred to a customer.
3. At contract inception, agencies must determine if a performance obligation will be satisfied at a point in time or over time.
4. Where a performance obligation is satisfied over time, an agency must apply a single method consistently, to measure progress towards the satisfaction of the performance obligations.
5. Pursuant to paragraph 18, where an agency uses an output method to measure progress towards satisfying a performance obligation, it may recognise revenue equal to an amount it has the right to invoice, if the right to consideration from the customer corresponds directly with the value to the customer of the agency’s performance to date.
6. Agencies must re-measure progress towards satisfaction of the performance obligation at a minimum quarterly for contracts with a total value of $5 million or more, and annually for other contracts, subject to the exemption in paragraph 21.

## Recognition exemption

1. Where the total value of a contract is $50 000 (GST exclusive) or less, an agency may elect to recognise revenue upfront, on receipt of cash.
2. Pursuant to paragraph 21, an agency must apply this election consistently to all low value contracts.
3. GBDs are not permitted to apply the election option in paragraphs 21 and 22.

# Income for the acquisition or construction of an asset (capital grants)

1. Agencies must recognise revenue for the acquisition of an asset, which the agency retains, at the point in time when it acquires and controls the asset, where the contract has sufficiently specific performance obligations.
2. Agencies must recognise revenue for the construction of an asset that the agency retains, over time as the performance obligation is satisfied, where the contract has sufficiently specific performance obligations.
3. Pursuant to paragraph 25, revenue must be recognised in direct proportion to the completed amount of construction work in progress.
4. The percentage of completion for construction work in progress must be measured using costs incurred to date, as a proportion of estimated total project cost.
5. Agencies must recognise revenue for the acquisition or construction of an asset that the agency retains, on receipt, where performance obligations outlined in the contract are not sufficiently specific.

# Contribution by owners

1. Agencies must recognise a contribution by an owner, such as capital or output appropriation, on receipt, in accordance with Australian accounting standards.

# Licences

## A licence is an authority or permission to use, do or own something.

## It includes:

* 1. licences issued with enforceable rights and obligations
  2. licences created by statute under Australian law.

1. It excludes licences that contain a lease or are a service concession arrangement.

## Recognition exemptions

1. The following licence exemptions require revenue from licences to be recognised at the point in time when the licence is issued:
   1. short-term licence – licence with a term of 12 months or less
   2. low-value licence – licence with a transaction price of $10 000 (GST exclusive) or less
      1. A licence does not qualify as a low-value licence if the nature of the licence is not typically of low value.

# Volunteer services

1. Volunteer services are services received by an agency free of charge or for consideration significantly less than fair value of those services.
2. Agencies must recognise the value of volunteer services in the financial statements only if:
   1. services would be purchased if they had not been donated
   2. the fair value of the volunteer services can be reliably measured
   3. they are material.

# Income for assets acquired for nil consideration or significantly below fair value

## Assets acquired for nil consideration

1. Agencies must recognise an asset acquired for nil consideration, at fair value on initial recognition in accordance with Australian accounting standards.

## Assets acquired significantly below fair value

### Agencies must recognise an asset acquired significantly below fair value, at fair value on initial recognition in accordance with Australian accounting standards.

### Peppercorn or concessionary leases

1. Peppercorn or concessionary leases are those issued significantly below market terms and conditions, principally to enable an agency to further its objectives.
2. Where an agency is a lessee of a peppercorn or concessionary lease, on initial recognition, it must measure the right-of-use asset at cost, which equates to the value of the lease liability.

# Taxes or fines

1. Agencies must recognise taxes or fines as income at the point in time when the taxable event occurs.
2. Pursuant to paragraph 40, where an asset arising from a taxable event cannot be measured reliably, the asset and corresponding revenue may be recognised in subsequent reporting periods, once the asset can be measured reliably.
3. Pursuant to paragraph 40, where there is significant uncertainty surrounding the collectability of a fine, revenue associated with the fine should only be recognised when cash payment is received.

# Pass-on arrangement

1. A pass-on arrangement is where an agency is used as a conduit to pass on funds to other entities. This excludes administered items collected on behalf of the Central Holding Authority (CHA).
2. When an agency receives funding where it merely acts as a post box to facilitate the head grantor passing on the grant to a non-controlled Northern Territory Government entity, the agency must not account for funding on the statement of financial performance but recognise the receipt and payment through a clearing account, in accordance with Australian accounting standards.

## Recognition exemptions

1. Where funds are passed on between two Northern Territory Government‑controlled entities, regardless of funding source, the paying agency must record an expense on payment and recipient agency must record the revenue on receipt of cash.
2. GBDs are not permitted to apply the exemption in paragraph 45.

# Contract costs

1. Contract costs include costs to obtain and fulfil a contract.
2. Agencies must expense the costs to obtain a contract immediately, where the performance obligation will be satisfied within one year or less.
3. Agencies must not capitalise Territory Government employee costs that satisfy the criteria for recognition as a cost to fulfil a contract. These costs must be expensed immediately.
4. For all contracts, other than construction contracts, agencies must only capitalise the other costs to fulfil a contract as a contract cost asset if it is deemed material.

# Interest on Commonwealth funding

1. Where an agency is a party to an agreement with the Commonwealth that contains an interest clause, interest is payable by the CHA to the agency and is administered by the Northern Territory Treasury Corporation.
2. Pursuant to paragraph 51, the interest rate applicable on unspent balances of funding is the Reserve Bank of Australia cash rate less a discount of 0.25 percentage points.
3. Where the balance of Commonwealth funds is in overdraft, the Reserve Bank Australia small business overdraft rate will apply.
4. Agencies must monitor or separately identify Commonwealth agreements with an interest clause, by establishing a separate cost centre for each agreement, to track all receipts and payments (including interest revenue) associated with the agreement.
5. Agencies must provide information on funding flows to CHA, at a minimum, annually, to assist the Northern Territory Treasury Corporation in calculating interest on funding.

# Record keeping

1. An accountable officer must keep appropriate documentation for significant judgements or assumptions used to determine the timing and amounts of revenue recorded within a reporting period.
2. An accountable officer must maintain a register of fees and charges that must detail at a minimum the:
   1. nature of the fee and charge
   2. amount of the fee and charge
   3. authority for any statutory fees and source of approval for any charges.
3. Pursuant to paragraph 56, a register of fees and charges is not required where an agency has never had any fees and charges.
4. Pursuant to paragraphs 56 and 57, an accountable officer must retain such records for the specified minimum period, in accordance with the agency’s records disposal schedule.

# Reporting

1. An accountable officer must classify and record income in accordance with the Treasurer’s Direction on agency (or GBD) financial statements.
2. Upon request, an accountable officer must provide the Department of Treasury and Finance with a copy of the register of fees and charges, documentation that supports re-measurement of capital grants, significant judgements and assumptions used in determining the timing and amount of revenue recognised and any other relevant information as necessary.

# Transitional requirements

1. The accountable officer must ensure compliance with the transitional requirements for the first-time adoption of the new accounting standards AASB 15 and AASB 1058 as detailed in Transition Implementation: Income document.

| Change history | | | |
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| **Version** | **Date** | **Author** | **Change details** |
| 1.0 | February 2020 | DTF | Initial version |