ACT Government | Suburban Land Agency

Chief Executive Financial Instruction No. 10

Revenue Recognition

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All Staff

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EXECUTIVE SUMMARY

The point of revenue recognition for the sale of land by the Suburban Land Agency (the Agency) is by:

- Ballot or 'Over the Counter'- is usually on settlement;
- Auction - at settlement;
- Direct sale - is usually upon execution of the lease and receipt of the purchase price;
- Sale of land into a joint venture partnership - is normally upon execution of the legally enforceable agreement and establishment of joint venture capital accounts; and
- Put and Call Options – is usually on settlement with the homebuyer.

Contents

This instruction contains the following sections:

1. Introduction

1.1 Overview
This instruction defines the Agency's policy in relation to revenue recognition.

It is issued in accordance with the provisions of the *Financial Management Act 1996* (FMA) and the Australian Accounting Standards related to Revenue Recognition.

1.2 Compliance
Non-compliance with this instruction may result in the Agency materially incorrectly reporting revenue and therefore negatively impacting its return to government and compliance with its statutory obligations.

Managers and staff are therefore accountable to the CEO for the fulfilment of their responsibilities under these procedures. Non-compliance will be taken as a serious matter and may result in disciplinary action or be reflected in management performance reviews.

2. Overview of Revenue Recognition

2.1 Types of Activities
The Agency's core business involves the development, marketing and sale of land.

2.2 Staff obligation
All staff have an obligation to ensure that all activities involving the development, marketing and sale of land:

- comply with these instructions, relevant legislation and Best Practice Guidance;
- are ethical, efficient and effective;
- are accountable and transparent;
- support industry development; and
- represent value for money.

2.3 GST
As most of the Agency's sales will attract GST, staff must comply with *A New Tax System (Goods and Services Tax) Act 1999* and accurately record the GST associated with any sale. GST on land sales is complex in nature, so staff should seek advice from Finance where uncertainty exists.

3. Instructions for Revenue Recognition

3.1 Revenue recognition
Revenue is recognised in accordance with Australian Accounting Standard AASB118.

*"**Revenue** is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.*

***Revenue** from the sale of goods shall be recognised when all the following conditions have been satisfied:*
- *The entity has transferred to the buyer the significant risks and rewards of ownership of the goods;*
- *The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;*
- *The amount of revenue can be measured reliably;*
- *It is probable that the economic benefits associated with the transaction will flow to the entity; and*
- *The costs incurred or to be incurred in respect of the transaction can be measured reliably."*

The above applies to the sale of land.

3.2 Revenue Recognition of Land Sales
The core business of the Agency is to develop, market and sell land. In doing so the Agency acts as an agent for the Territory. Land are the Agency's main source of revenue.

The Agency's land sales can be categorised into:

3.2.1 Sale of land by ballot or subsequently 'over the counter'
When the Agency develops, subdivides and sells blocks of land to end purchasers it may be done by means of a ballot, as required by the Planning and Development Act 2007, Section 238. The purchaser at a ballot pays a deposit and exchanges the contract on the day of the ballot. Settlement eventually occurs when full payment for the land is completed and the lease is transferred to the purchaser.

Any land remaining after a ballot may be purchased 'over the counter' where the purchaser selects a block and pays a nominal holding amount determined by the Agency. Instructions are then provided to solicitors; contracts are issued and the balance is paid on exchange of contracts.

The point of revenue recognition of a sale by ballot or 'over the counter' is usually on settlement.

3.2.2 Sale of land by auction
Auction sales include sales of blocks of land to end purchasers, sales to builders for construction of houses to be sold as 'house and land' packages; or for building of a home unit complex; and sales of commercial or industrial land for development.

Under the terms of the auction contract, the exchange of contract takes place on the day of the auction with payment of a deposit, usually 10% of the purchase price. Settlement of the contract normally takes place 30 to 45 days after the date of the auction. The terms and conditions of the contract may be varied to extend the date.

The point of revenue recognition of a sale by auction should be at settlement.

3.2.3 Sale of land by direct sale

Sales of land by direct sale occur in accordance with a statutory legislation overseen by the Environment Planning and Sustainable Development Directorate and a range of conditions may apply depending on the type and purpose of the application.

A normal contract for the sale of land is used for a complex land sale. For a simple transaction, the Agency issues a letter of 'offer' for the direct sale, which is 'accepted' in writing by the applicant.

The point of revenue recognition of a direct sale is on settlement or upon execution of the lease and receipt of the purchase price.

3.2.4 Sale of land into a joint venture arrangement, in which the Agency is a partner

The Agency may enter into a joint venture agreement with a third party for the development and sale of Territory land.

The point of revenue recognition of a sale of land into a joint venture partnership is normally upon execution of the legally enforceable joint venture agreement and establishment of joint venture capital accounts.

3.2.5 Put and call options

The Agency may offer builders an option over a block in order for the builder to negotiate with a home buyer for entering into a building contract for the block. Where an option fee is charged and recognised as revenue.

Ultimately the Agency will contract with the home buyer for the purchase of the block. Revenue is usually recognised on settlement with the home buyer.

3.3 Process and Procedures

In summary the Agency will normally recognise sales of land as follows:

Type of land sale	**Recognised at**
Sale of land by ballot or subsequently over the counter	Settlement
Sale of land by auction	Settlement
Sale of land by direct grant	Execution of lease and receipt of purchase price
Sale of land into a joint venture (JV) partnership	Execution of a JV agreement and establishment of JV capital accounts
Put and call option	Settlement of the consequential sales contract

3.4 Recognition of Non-Cash Sales Consideration

Where there is a non-cash component of the sale consideration, such as an agreement by the buyer to build infrastructure assets (roads, services and landscaping etc) and hand them over to the Territory, revenue is recognised at the time of the sale of land. The Agency's Right to Receive Infrastructure is also recognised as an asset and the expense and liability equal to the infrastructure component of the revenue is also recognised at this point.

The contract of sale sets out the assets that the developer is required to provide, and the value attributed to them.

4. Revenue Accounting Policy

Revenue for the sale of land by the Agency will not be recognised unless all of the risks and rewards of the sale of the land are transferred to the purchaser; and the other conditions pursuant to Australian Accounting Standard “AASB 118 Revenue” are met (refer section 3.1 above)

In the first instance, a determination as to whether all risks and rewards have been transferred to the purchaser needs to be made on a case-by-case basis and assessed against the applicable Accounting Standard.

Revenue from land sales may comprise cash proceeds (including deferred settlement, if any) and the value of infrastructure assets that the purchaser is required to provide to the Territory as part of the contract of sale.