

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Additional Estimates

10 – 11 February 2010

**Question: aet 121**

**Topic: Childcare Licences**

**Hansard Page: E119-E120 (11/02/2010)**

**Senator ABETZ asked:**

**Senator ABETZ**—.... Can I follow up with you the ABC childcare situation? Is it correct to say that ABC Learning Centre's major asset on its balance sheet was its licences?

**Mr D'Aloisio**—I do not know directly. I assume that the licences would be an important asset. I do not have direct information on that.

**Senator ABETZ**—You could take that on notice.

**Mr D'Aloisio**—I can take that on notice.

**Senator ABETZ**—Can we establish whether childcare licences are a valid asset?

**Mr D'Aloisio**—You mean for accounting valuation purposes?

**Senator ABETZ**—Yes.

**Mr D'Aloisio**—I will take that on notice.

**Senator ABETZ**—I understand that a lot of childcare centres, especially not-for-profit ones, do not put the licences on. In one of your answers, you said, 'the revaluation of intangible assets where there is an active market as defined in the standard' and the standard was AASB 138. Is it ASIC's view that there is an active market in relation to childcare licences?

**Mr D'Aloisio**—We do not have a policy position on it that I am aware of. I will take that on notice.

**Senator ABETZ**—As I understand it, in most states you can get a childcare licence for no cost. If you can achieve one for no cost but then whack it onto your balance sheet as a major asset, it could have the potential to skew things.

**Mr Dwyer**—I can perhaps shed some light on that. We reviewed the 30 June 2007 accounts of ABC and I believe that the valuation of licences was considered at that time. As I understand it, based on advice from their own financial advisers, they reversed the goodwill portion of the revaluation in the 30 June 2007 accounts.

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#### Answer

##### *Questions in summary:*

1. Whether the childcare licences were the major asset on the balance sheet of ABC?

The childcare licences were the major asset on the balance sheet of ABC at the following balance dates:

| Balance date     | Childcare licences reported on balance sheet (\$ million) | Total assets (\$ million) |
|------------------|---|---------------------------|
| 30 June 2005     | 772.7   | 1,165.5                   |
| 31 December 2005 | 891.8   | 1,419.2                   |
| 30 June 2006     | 1,343.4   | 2,323.3                   |
| 30 June 2007     | 2,614.7   | 4,067.1                   |

The ABC financial reports disclosed that the cost of childcare licences acquired during each of the years ended 30 June 2005, 2006 and 2007 was \$371.1 million, \$588.0 million and \$1,019.4 million, respectively.

2. Whether the childcare licences were a valid asset for accounting valuation purposes?

The childcare licences met the definition of an “asset” in the relevant accounting standards.

For the year ended 30 June 2005, accounting standards defined “asset” as “future economic benefits controlled by the entity as a result of past transactions or other past events”.

For subsequent reporting periods, new accounting standards applied but the definition of an asset was not significantly changed. AASB 138 defined an “asset” as “a resource:

- (a) controlled by an entity as a result of past events; and
- (b) from which future economic benefits are expected to flow to the entity.”

The licences embody future benefits in that they provide the right to run childcare centres. These future benefits were controlled as a result of business acquisitions or the granting of licences.

3. Given that childcare licenses could only be revalued if there is an active market for those licences under accounting standard AASB 138 “Intangible Assets” (“AASB 138”), is its ASIC’s view that there is an active market in relation to those licences?

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In 2006, ASIC reviewed and enquired of ABC in relation to the revaluation of childcare licences in its financial reports for the periods ended 30 June 2005 and 31 December 2005. Revaluation of the licenses was permitted under the accounting standards for the year ended 30 June 2005. There was no active markets test for the revaluation of intangible assets.

New accounting standards applied from the half year ended 31 December 2005. The new standard, AASB 138, only allows the revaluation of intangible assets where there is an active market as defined in the standard. However, the standards only apply where an accounting treatment has a material impact.

ASIC was not satisfied that there was an active market for the licences. Accordingly, ASIC raised some issues of concern with ABC in relation to the revaluation of the licences, particularly that the revaluations may not have been permitted by AASB 138.

ASIC further reviewed the 30 June 2006 financial statements of ABC. However, ASIC noted that the financial impact of these concerns in relation to childcare licences on the 2006 financial statements was not material to the company. ASIC decided that it would not proceed further with its enquiries in relation to these concerns at that time.

ASIC is currently conducting an investigation into the collapse of ABC Learning Limited and the circumstances surrounding the collapse. ASIC is presently unable to comment on what action is likely to result from this investigation.