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| FRD 3 |  |  | Accounting for Dividends (April 2022) |
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| Purpose |  | 1.1 | To mandate when a liability for dividends is recognised and how it is disclosed in the financial report. |
| Application |  | **2.1** | Applies to all entities defined as either a public body or a department under section 3 of the *Financial Management Act* 1994. Application to State-owned corporations is encouraged. |
| Operative date |  | **3.1** | Reporting periods commencing 1 July 2005. |
|  |  | **3.2** | **FRD 3A *Accounting for Dividends* is renamed to FRD 3 *Accounting for Dividends* effective 1 April 2022.** |
| Requirements |  | **4.1** | Existence  A liability for a dividend only arises once:   * **the Treasurer makes a formal determination (in the case of a Statutory Corporation); or** * **declared by resolution of the members (shareholders) in a general meeting (in the case of a Corporations Act Company).** |
|  |  | **4.2** | Recognition and Disclosure   * **Where the dividend arises on or before the reporting date, the dividend must be recognised as a liability.** * **Where the dividend arises after the reporting date, but before completion of the financial report, the dividend must not be recognised as a liability as at the reporting date. Instead, the proposed dividend must be disclosed in the notes to the financial statements.** * **Irrespective of the timing of the determination by the Treasurer, the accounting policy for dividends must be disclosed in the notes to the financial statements.** |
| Definitions |  | 5.1 | **Interim reporting period** – a reporting period within an annual reporting period that is shorter than that annual reporting period. |
|  |  | 5.2 | **Reporting date** – the end of the reporting period to which the financial report relates. In the case of an interim reporting period, the reporting date is the date to which the interim financial report relates. Commonly referred to as balance date. |
|  |  | 5.3 | **Declared** – in the context of dividends, is considered to mean that the dividends are appropriately authorised and no longer at the discretion of the entity and that undeclared dividends do not meet the criteria of a present obligation. |
| Guidance |  | 6.1 | Recognition of a liability for dividends payable will depend on the specific legislative requirements pertaining to a particular entity, the consultative process, and the actual timing of the determination/declaration.  In the case of a Statutory Corporation a formal determination by the Treasurer occurs following consultation between an entity's Board, the relevant Minister and the Treasurer.  In the case of a Corporations Act Company the dividend is declared by resolution of the members (shareholders) in a general meeting following consultation between an entity's Board, the relevant Minister and the Treasurer.  Appendix 1 contains example disclosures for the financial report. |
| Relevant pronouncements |  | 7.1 | AASB 137 Provisions, Contingent Liabilities and Contingent Assets (July 2004). |
| Background |  | 8.1 | The Victorian Government dividend policy is to recognise dividends once they are determined by the Treasurer (in the case of a Statutory Corporation), or agreed in a general meeting (in the case of a Corporations Act company), after consultation between the Board, the relevant Minister and the Treasurer.  The above requirement being consistent with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* that a dividend liability must not be recognised if the dividends are still to be approved at the reporting date.  In determining dividend payments the following two general benchmarks are used:  50 percent of net profit after tax; or  dividends and income tax equivalent paid or payable of 65 percent of pre-tax profit.  Other factors which are also considered and will affect dividend payments include the views of the board of directors, reported profit, liquidity, operating cash flow and forecast cash requirements of each government business enterprise (including planned capital works), gearing and interest cover of the business, retained earnings and any other specific factors relating to individual businesses. |
| Appendix 1 |  | 9.1 | Example disclosures for the financial report. |
|  |  |  | Summary of significant accounting policies note:  **For a Statutory Corporation**: ‘*An obligation to pay a dividend only arises after a formal determination is made by the Treasurer following consultation between the Board, the relevant portfolio Minister and the Treasurer*.’  **For a Corporations Act Company**: ‘*An obligation to pay a dividend only arises after it has been declared by resolution of the members (shareholders) in a general meeting following consultation between the Board, the relevant portfolio Minister and the Treasurer*.’ |
|  |  |  | Dividends note:  For a Statutory Company and Corporations Act Company: ‘*The process to determine the 200X-0Y dividend has not yet been completed at the reporting date. The Board’s preliminary dividend estimate for this period is <insert amount here>*’. |