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Accounting for a Financial Arrangement in the Absence of a Determination

Issued: 21 November 1988

G12

This Determination may be cited as "Determination G12: Accounting for a Financial Arrangement in the Absence of a Determination".

1 Explanation (which does not form part of the determination)

1. This determination applies where a person is a holder or an issuer of a financial arrangement and—
 - (a) Section 64C(2) of the Act does not apply (ie it is not possible to calculate the amount of the income derived or expenditure incurred by the person in respect of the financial arrangement using the yield to maturity method); and
 - (b) Section 64C(3)(a) of the Act does not apply (ie the Commissioner has issued no other determination that provides a method of accounting for the financial arrangement); and
 - (c) The person does not report the amount of the income derived or expenditure incurred in respect of the financial arrangement for financial reporting purposes.
2. Where this determination applies in relation to a person and a financial arrangement, the person is required to calculate the income derived or expenditure incurred in respect of the financial arrangement using a method that—
 - (a) Has regard to the principles of accrual accounting; and
 - (b) Conforms with commercially acceptable practice; and
 - (c) Results in the allocation to each income year of an amount that, having regard to the tenor of section 64C(2) of the Act is fair and reasonable.
3. Any method adopted under this determination for calculating the income derived or expenditure incurred by a person in respect of a financial arrangement and an income year is required to be consistently applied.

2 Reference

This determination is made pursuant to section 64E(1)(b) of the Act.

3 Scope of Determination

This determination applies where a person is a holder or an issuer of financial arrangement and—

(a) Sections 64C(2) and 64C(3)(a) of the Act do not apply in relation to the person and the financial arrangement; and

(b) For financial reporting purposes the person does not report the amount of the income derived or expenditure incurred in respect of the financial arrangement.

4 Principle

1. Where this determination applies to a person and a financial arrangement in an income year, the amount of the income derived or expenditure incurred by the person in respect of the financial arrangement and the income year shall be calculated using a method that has regard to the purpose of section 64C of the Act.
2. Where pursuant to this determination a person adopts a method for calculating the income derived or expenditure incurred by the person in respect of a financial arrangement and an income year, the person shall adopt that method in respect of all such financial arrangements.

5 Interpretation

In this determination, unless the context otherwise requires,—

Words and expressions used shall have the same meanings as in the Act, except that where there is a conflict between the meaning of an expression in sections [64B](#) to [64M](#) of the Act and the meaning of the expression elsewhere in the Act the expression shall have the same meaning as in the said sections 64B to 64M:

“The Act” means the Income Tax Act 1976.

6 Method

1. Where—
 - a) This determination applies in respect of a person and a financial arrangement and an income year; and
 - b) For financial reporting purposes the person does not report the amount of the income derived or expenditure incurred in respect of the financial arrangement using a method that has regard to the principles of accrual accounting—

the amount of the income derived or expenditure incurred by the person in respect of the financial arrangement and the income year shall be calculated using a method that—

- c) Has regard to the principles of accrual accounting; and
 - d) Conforms with commercially acceptable practice; and
 - e) Results in the allocation to each income year of an amount that, having regard to the tenor of section 64C(2) of the Act is fair and reasonable.
2. Where this determination applies in relation to a person and a financial arrangement and an income year, the amount of the income derived or expenditure incurred by the person in respect of the financial arrangement and the income year shall be calculated using the method used to calculate the income derived or expenditure incurred in the income year by the person in respect every other such financial arrangement to which this determination applies.

7 Example

Financial arrangement not reported for financial reporting purposes

1. An individual's assets include a reviewable rate mortgage acquired on 1 October 1988. The first interest payment on the mortgage is due on 30 September 1989. The individual does not prepare any financial reports.
2. At 1 October 1988 the Commissioner had issued no determination that prescribed a method of accounting for such a financial arrangement. This determination therefore applies and the taxpayer must report the income in his or her income tax return using a method that satisfies clause 6(4)(c), (d) and (e) of this determination.
3. For the purpose of calculating the income derived from the mortgage by the individual in the year ending 31 March 1988, the following method is acceptable under this determination. The amount of the income could be calculated by apportioning the interest receivable at the first payment date following balance date to the appropriate accounting periods on a straight line daily basis over the days in the period to which the payment relates.

About this document

General determinations set out the Commissioner's view on how the financial arrangements rules apply to a specific type of financial arrangement. All general determinations are binding on the Commissioner and some are also binding on taxpayers.