

**This Agenda Paper provides a worked example of a defined benefit superannuation plan's financial statements prepared in accordance with the proposals in draft ED 16X *Superannuation Plans and Approved Deposit Funds*.**

## Introduction

1. During its February 2009 meeting, the Board agreed that staff should ‘test’ the example financial statements in Appendix C of draft ED 16X *Superannuation Plans and Approved Deposit Funds* by populating the statements with numbers derived from the published financial statements of a defined benefit superannuation plan and prepare journal entries to explain the movements in defined benefit members’ accrued benefits for the Board’s consideration.
2. The following example demonstrates how a defined benefit superannuation plan’s financial statements might be presented under the proposals in draft ED 16X. The numbers used in this example have been derived from the financial statements of a corporate superannuation plan comprising approximately 48,000 defined benefit members. Staff have modified the numbers from the plan’s financial statements and changed the titles of some of the accounts to disguise the plan’s identity. Journal entries explaining the movements in defined contribution members’ vested benefits are provided on page 7 of this Paper.
3. For the purpose of this example:
  - (a) the plan is assumed to be exposed to significant insurance risk through the insurance arrangements it offers to its members;
  - (b) the plan’s trust deed permits but does not require the trustee to allocate benefits forgone by exiting members to active members at the trustee’s discretion. Accordingly, forgone benefits are equity as defined in Australian Accounting Standards; and
  - (c) the actuarially determined benefit cost, interest cost and actuarial losses in respect of members’ accrued benefits for the reporting period are \$491,998, \$232,628 and \$39,891 respectively. In addition, there were no settlements during the period.

### *Staff view*

Staff consider that example financial statements populated with numbers would be more useful to constituents than example financial statements that do not contain numbers. Accordingly, staff recommend that the example financial statements in this Paper form the basis of the example financial statements to be included in ED 16X.

If the Board agrees with staff’s proposal to include worked example financial statements in the ED and if the Board considers it worthwhile, staff would prepare comparative numbers for all financial statements.

**Income Statement for ABC Superannuation Plan  
for the Year Ended 30 June 20XX**

	<b>20XX</b> <b>\$000</b>
<b>Superannuation activities</b>	
Interest revenue	89,696
Dividends and trust distributions received	534,216
Other income	1,496
Net remeasurement changes in investments measured at net fair value	(1,327,167)
Investment expenses	(27,404)
Administration expenses	(12,042)
Other expenses	(714)
	<b>(741,919)</b>
<b>Net loss from superannuation activities</b>	
<b>Insurance activities #</b>	
Insurance contract revenue	417
Less: Outwards reinsurance expense	(415)
Net premium revenue	2
Reinsurance recoveries revenues	3,440
Insurance contract expenses <sup>1</sup>	(3,726)
	<b>(284)</b>
<b>Net loss from insurance activities</b>	
	<b>(742,203)</b>
<b>Loss from operating activities</b>	
Net change in members' accrued benefits	(290,069)*
	<b>(1,032,272)</b>
<b>Loss before income tax benefit</b>	
Income tax benefit	176,159
<b>Loss after income tax</b>	<b>(856,113)</b>

# While arguably not material in the context of the plan's overall loss for the period, income and expenses arising from insurance activities are separately presented here to demonstrate how they might appear if the items were material.

\* Refer to the statement of changes in members' accrued benefits on page 6 of this Paper for an explanation of how this amount was calculated.

<sup>1</sup> Insurance contract expenses comprises insurance claims received and approved during the reporting period that had not been recognised in previous reporting periods.

**Statement of Financial Position for ABC Superannuation Plan  
as at 30 June 20XX**

	<b>20XX</b>	<b>20XW</b>
	<b>\$000</b>	<b>\$000</b>
<b>Assets</b>		
Cash	32,420	31,157
Contributions receivable	993	22,176
Investment income receivable	43,190	35,697
Other receivables	36,215	73,259
Units in Australian cash management trusts	724,799	498,599
Units in overseas cash management trusts	15,657	54,074
Shares in Australian listed corporations	5,063,465	6,141,827
Shares in overseas listed corporations	1,424,475	1,250,426
Investment linked insurance contracts	289,148	833,802
Australian fixed interest securities	890,348	822,656
Overseas fixed interest securities	220,989	343,797
Derivative financial instruments	32,328	25,998
Income tax refund receivable	15,411	—
Deferred tax assets	38,333	1,233
Equipment	32	53
Reinsurance assets	5,313	6,429
<b>Total assets</b>	<b>8,833,116</b>	<b>10,141,183</b>
<b>Liabilities</b>		
Accounts payable	12,699	11,102
Benefits payable	148,058	281,048
Other payables	29,648	145,086
Income tax payable on contributions	147	2,778
Income tax payable	3,447	93,114
Deferred tax liabilities	797	133,077
Insurance liabilities	6,315	7,521
Members' accrued benefits	8,761,789	8,741,100
<b>Total liabilities</b>	<b>8,962,900</b>	<b>9,414,826</b>
<b>Equity</b>		
Forgone benefits reserve	3,658	3,686
Unallocated surplus/(deficiency)	(133,442)	722,671
<b>Total equity</b>	<b>(129,784)</b>	<b>726,357</b>

**Cash Flow Statement for ABC Superannuation Plan  
for the Year Ended 30 June 20XX**

	<b>20XX \$000</b>
<b>Cash flow from operating activities</b>	
Interest received	86,455
Dividends and trust distributions received	529,964
Other investment income received	1,496
Reinsurance recoveries received	4,556
Insurance premiums received	417
Administration expenses paid	(11,460)
Reinsurance premiums paid	(415)
Actuarial fees paid	(714)
Investment expenses paid	(26,389)
Income tax paid	(98,299)
<b>Net cash inflows from operating activities</b>	<b>485,611</b>
<b>Cash flows from investing activities</b>	
Proceeds from sales of shares in Australian listed corporations	225,134
Proceeds from sales of shares in overseas listed corporations	101,347
Proceeds from sales of investment linked insurance contracts	578,541
Proceeds from sales of Australian fixed interest securities	98,127
Proceeds from sales of overseas fixed interest securities	47,072
Proceeds from sales of derivative financial instruments	163,416
Purchases of shares in Australian listed corporations	(257,594)
Purchases of shares in overseas listed corporations	(688,059)
Purchases of Australian fixed interest securities	(175,771)
<b>Net cash inflows from investing activities</b>	<b>92,213</b>
<b>Cash flows from financing activities</b>	
Contributions received:	
Employers	477,185
Members	119,257
Net surcharge tax instalments received from members	1,350
Benefits paid	(881,361)
Income tax paid on contributions received	(105,209)
<b>Net cash outflows from financing activities</b>	<b>(388,778)</b>
<b>Net increase in cash and cash equivalents</b>	<b>189,046</b>
<b>Cash and cash equivalents at beginning of the financial period</b>	<b>583,830</b>
<b>Cash and cash equivalents at the end of the financial period</b>	<b>772,876</b>

**Statement of Changes in Members' Accrued Benefits for ABC Superannuation Plan  
for the Year Ended 30 June 20XX**

	<b>20XX</b>
	<b>\$000</b>
<b>Opening balance</b>	<b>8,741,100</b>
Contributions received and receivable	
Employers	466,419
Members	110,870
Income tax on contributions	(102,578)
Contributions surcharge tax	(263)
Net after tax contributions received and receivable	<u>474,448</u>
Less:	
Benefits paid and payable	(748,371)
Benefits forgone by exiting members transferred to Forgone benefits reserve	(795)
Insurance premiums charged to members	(417)
Add:	
Death and disability benefits credited to members <sup>2</sup>	4,932
Forgone benefits allocated to members transferred from Forgone benefits reserve	823
Net change in accrued benefits	<u>290,069</u>
<b>Closing balance</b>	<b><u>8,761,789</u></b>

<sup>2</sup> Death and disability benefits credited to members' accounts comprises: (a) \$3,726,000 of insurance claims received and approved during the reporting period that had not been recognised in previous reporting periods; and (b) \$1,206,000 of insurance claims received and approved during the reporting period that had been recognised during previous reporting periods. Accordingly, this amount was transferred from Insurance obligations to Members' accrued benefits during the reporting period.

**Journal entries:**

Note: The following journal entries summarise the transactions and events that would have occurred over the reporting period relating to members' accrued benefits.

Dr. Cash/Receivable	\$577,289,000	
Cr. Members' accrued benefits	\$474,711,000	
Cr. Contributions tax payable		\$102,578,000

Dr. Members' accrued benefits	\$263,000	
Cr. Cash		\$263,000

For contributions surcharge tax paid on behalf of members.

Dr. Members' accrued benefits	795,000	
Cr. Forgone benefits		\$795,000

Dr. Members' accrued benefits	\$417,000	
Cr. Insurance contract revenue		\$417,000

Dr. Members' accrued benefits	\$748,371,000	
Cr. Benefits payable		\$748,371,000

Dr. Insurance liabilities	\$4,932,000	
Cr. Members' vested benefits		\$4,932,000

To recognise the change in members' accrued benefits due to death and disability claims during the reporting period. Refer to footnote 2 above.

Dr. Forgone benefits	\$823,000	
Cr. Members' accrued benefits		\$823,000

Dr. Net change in members' accrued benefits (P&L)	\$290,069,000	
Cr. Members' accrued benefits		\$290,069,000

**Statement of Changes in Equity for ABC Superannuation Plan  
for the Year Ended 30 June 20XX**

	<b>Unallocated surplus/(deficiency)</b>	<b>Forgone benefits reserve</b>	<b>Total equity</b>
<b>Opening balance</b>	<b>722,671</b>	<b>3,686</b>	<b>726,357</b>
Loss for the period	(856,113)		(856,113)
Transfers from members' accrued benefits as benefits forgone by members	–	795	795
Transfers to members' accrued benefits as allocations to members	–	(823)	(823)
<b>Closing balance</b>	<b>(133,442)</b>	<b>3,658</b>	<b>(129,784)</b>