

**Issues Paper: Transitional Requirements for Whole of Government GAAP/GFS  
Harmonised Financial Reporting**

***Background***

1. Minutes of the February 2007 AASB meeting record the following Board decision: “Given that jurisdictions have already adopted Australian equivalents to IFRSs for whole of government reports, the first draft of the ED should not anticipate the need for specific transitional provisions. In due course, staff should develop a separate issues paper for consideration by the Board at a future meeting.” Staff have developed this paper in response to the Board’s February 2007 decision.
2. Issues relating to transition are more complicated for GGSs than they are for whole of governments. AASB 1049 *Financial Reporting of General Government Sectors by Governments* had to contemplate bringing an entity (GGS) that was not previously subject to GAAP into GAAP, and therefore had to consider the implications of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. By the time a whole of government GAAP/GFS harmonised Standard is issued, whole of governments will already have first-time adopted Australian equivalents to IFRSs. Therefore, whole of governments will already have made the choices available under AASB 1 and first-time adopted Australian equivalents to IFRSs. Accordingly, issues relating to first time adoption of Australian equivalents to IFRSs do not need to be addressed in a whole of government GAAP/GFS harmonised Standard.
3. GAAP as it applies to whole of governments may change as a result of other projects that are being progressed concurrently with the GAAP/GFS Harmonisation project, such as the short-term review of AAS 31 *Financial Reporting by Governments*. Transitional issues relating to such GAAP changes should be addressed as part of those concurrent projects and therefore are not addressed in this paper.
4. The remainder of this paper addresses transitional issues that need to be considered specifically in relation to GAAP/GFS harmonisation. The issues arise to the extent the whole of government GAAP/GFS harmonised Standard imposes changes in accounting policies currently adopted by whole of governments.

***Implications of changes in recognition and measurement requirements***

5. The draft ED for whole of government GAAP/GFS harmonised financial reporting is limited in the extent to which it imposes a change in accounting policy affecting recognition and measurement. In particular, it would only impose a change in policy where the current policy is not consistent with a GFS treatment that is available under GAAP. The following considers each area identified by way of example in paragraph 14 of AASB 1049 where a change in accounting policy might arise. The identified potential changes in policy apply to whole of governments as well as the GGSs, PNFC sectors and PFC sectors about which financial information is disclosed in the whole of government financial report. Consistent with paragraphs 19 and 22 to 27 of AASB 108 and paragraphs 36 to 41 of AASB 101 (reproduced in Appendix A of this paper), in the absence of any specific transitional arrangements, new policies should be applied retrospectively such that all comparative information provided is determined using the new policies.

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- (a) Borrowing costs: Under AASB 123 *Borrowing Costs*, an entity may have a policy of capitalising certain borrowing costs that, under GAAP/GFS harmonisation, would be required to be changed to a policy of expensing. The principles in AASB 108 would lead to retrospective application of the changed policy, subject to practicability. Retrospectivity would also be consistent with the principles in the ABS GFS Manual, particularly because of GFS's focus on time series. *Please also note that the Board is scheduled to discuss a revised AASB 123 at agenda item 5.*
  - (b) Measurement of financial instruments: Under AASB 139 *Financial Instruments: Recognition and Measurement*, an entity may have a policy other than fair value that, under GAAP/GFS harmonisation, may be required to be changed to a policy of fair value. For consistency with GFS and AASB 108, the effect of the changed policy should be applied retrospectively, subject to practicability.
  - (c) Measurement of investment property: Under AASB 140 *Investment Property*, an entity may have a policy of cost that, under GAAP/GFS harmonisation, may be required to be changed to a policy of fair value. For consistency with GFS and AASB 108, the effect of the changed policy should be applied retrospectively, subject to practicability.
  - (d) Measurement of property, plant and equipment and intangible assets: Under AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*, an entity may have a policy of cost that, under GAAP/GFS harmonisation, may be required to be changed to a policy of fair value. Paragraph 17 of AASB 108 states that the initial application of a policy to revalue assets in accordance with AASB 116 or AASB 138 is a change in an accounting policy to be dealt with as a revaluation in accordance with AASB 116 or AASB 138, rather than in accordance with AASB 108.
  - (e) Actuarial gains and losses: Under AASB 119 *Employee Benefits*, an entity may be adopting the 'corridor approach' that, under GAAP/GFS harmonisation, would be required to be changed to recognition through profit or loss or recognition to accumulated surplus. For consistency with GFS and AASB 108, the effect of the changed policy should be applied retrospectively, subject to practicability.
6. *Staff believe that it is appropriate that the retrospectivity requirements relating to changes in accounting policies in AASB 108 (including paragraph 17) and the requirements relating to comparative information in AASB 101, both of which provide practicability relief, should apply to changes in recognition and measurement requirements arising from a whole of government GAAP/GFS harmonised Standard.*

***Implications of changes in presentation and disclosure requirements***

7. A question arises as to whether, consistent with the principles in AASB 101, changes in presentation and disclosure requirements in a whole of government GAAP/GFS harmonised Standard should be reflected in comparative information, including in relation to:
- (a) presentation of key fiscal aggregates on the face of the financial statements;
  - (b) note disclosure of GFS measures of key fiscal aggregates;

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- (c) note disclosure of reconciliations between GFS and GAAP measures of key fiscal aggregates;
  - (d) classification of operating statement items between transactions and other economic flows;
  - (e) classification of cash flows relating to investing in financial assets between policy purposes and liquidity management purposes;
  - (f) disclosure of sector information; and
  - (g) note disclosure of functional information.
8. *Staff believe that it is appropriate that the requirements, including the practicability relief, in AASB 101 relating to the effect on comparative information of changes in presentation and disclosure requirements, should apply to whole of government GAAP/GFS harmonised financial reports.*

**APPENDIX A: EXTRACTS FROM RELEVANT STANDARDS**

**AASB 101 *Presentation of Financial Statements:***

36. **Except when an Australian Accounting Standard permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial report. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial report.**
37. In some cases, narrative information provided in the financial report for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last reporting date, and about the steps that have been taken during the period to resolve the uncertainty.
38. **When the presentation or classification of items in the financial report is amended, comparative amounts shall be reclassified unless the reclassification is *impracticable*. When comparative amounts are reclassified, an entity shall disclose:**
  - (a) **the nature of the reclassification;**
  - (b) **the amount of each item or class of items that is reclassified; and**
  - (c) **the reason for the reclassification.**
39. **When it is impracticable to reclassify comparative amounts, an entity shall disclose:**
  - (a) **the reason for not reclassifying the amounts; and**
  - (b) **the nature of the adjustments that would have been made if the amounts had been reclassified.**
40. Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.
41. AASB 108 deals with the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

**AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors:***

19. **Subject to paragraph 23:**
  - (a) **an entity shall account for a change in accounting policy resulting from the initial application of an Australian Accounting Standard in accordance with the specific transitional provisions, if any, in that Australian Accounting Standard; and**
  - (b) **when an entity changes an accounting policy upon initial application of an Australian Accounting Standard that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.**
- ...
22. **Subject to paragraph 23, when a change in accounting policy is applied retrospectively in accordance with paragraph 19(a) or (b), the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.**
23. **When *retrospective application* is required by paragraph 19(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is *impracticable* to determine either the period specific effects or the cumulative effect of the change.**
24. **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.**
25. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**
26. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing balance sheets for that period. The amount of the resulting adjustment relating to periods before those presented in the financial report is made to the opening balance of each affected component of equity of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the adjustment may be made to another component of equity (for example,

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to comply with an Australian Accounting Standard). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

27. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 25, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 50-53 provide guidance on when it is impracticable to apply a new accounting policy to one or more prior periods.

*Extract from paragraph 5 (Definitions):*

***Impracticable*** – applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- (a) the effects of the retrospective application or retrospective restatement are not determinable;
- (b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
- (c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
  - (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and
  - (ii) would have been available when the financial report for that prior period were authorised for issue;from other information.

***Retrospective application*** is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.